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POSTAL REGULATORY COMMISSION

# Annual Compliance Determination Report

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Fiscal Year 2018

**April 12, 2019**

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# EXECUTIVE SUMMARY

This report reviews the Postal Service's performance in Fiscal Year (FY) 2018, fulfilling the Commission's responsibility to produce an annual assessment of Postal Service rates and service mandated by Title 39, section 3653, of the United States Code (U.S.C.). It is based on information the Postal Service is required to provide within 90 days after the close of the fiscal year and on comments subsequently received from the public. Specific Commission findings and directives are identified in italics in each chapter.

Consistent with the approach adopted in past years, the *Annual Compliance Determination* (ACD) focuses on compliance issues as defined in 39 U.S.C. §§ 3653(b)(1) and (b)(2). These statutory subsections require the Commission to make determinations on whether any rates and fees in effect during FY 2018 were not in compliance with chapter 36 of Title 39 of the United States Code and whether any service standards in effect during FY 2018 were not met. The Commission's review in this year's ACD is based on the rates approved in Docket No. R2018-1 and all the rates in effect during FY 2018 for Competitive Products.

The financial analysis that had been incorporated in ACDs prior to 2013 is expanded in the *Financial Analysis of United States Postal Service Financial Results and 10-K Statement 2018*. The Commission will also issue a separate report on the Postal Service's *FY 2018 Annual Performance Report and FY 2019 Performance Plan* to fulfill its statutory responsibilities under 39 U.S.C. § 3653(c).

## A. Principal Findings: Market Dominant Rate and Fee Compliance

In Chapter 2, the Commission identifies compliance issues related to 23 workshare discounts, finding that 3 of the discounts did not comply with section 3622(e). Workshare discounts that exceed avoided costs adversely affect Postal Service finances because they incentivize mailers to perform worksharing that the Postal Service could have done on a less costly basis.

- For 2 of the 3 workshare discounts that were not in compliance with section 3622(e), the prices approved in Docket No. R2019-1 align the discounts with avoided costs; therefore, no further action is required.
- For the 1 workshare discount remaining out of compliance with section 3622(e), the Postal Service must either align the workshare discount with its avoided cost in the next Market Dominant price adjustment or provide support for an applicable statutory exception.

Additionally, for the Periodicals class, the Commission finds that the Postal Service meaningfully addressed the FY 2017 ACD directives to report on the cost and contribution impact of worksharing and progress in improving pricing efficiency. The Commission

directs the Postal Service to continue reporting on Periodicals pricing issues in its FY 2019 ACR.

## **B. Principal Findings: Market Dominant Noncompensatory Products**

In Chapter 3, the Commission identifies 8 noncompensatory Market Dominant products: Periodicals In-County, Periodicals Outside County, USPS Marketing Mail Flats, USPS Marketing Mail Parcels, Inbound Letter Post, Media Mail/Library Mail, Stamp Fulfillment Services, and the Market Dominant negotiated service agreement (NSA) with PHI Acquisitions, Inc. (PHI).

With respect to Periodicals In-County and Periodicals Outside County, the Commission finds that additional transparency is necessary to hold the Postal Service accountable. The Commission will continue to explore cost and service issues related to flats in Docket No. RM2018-1.

For USPS Marketing Mail Flats, the Commission finds that an advanced remedy is needed to address the Postal Service's continuing failure to comply with the Commission's FY 2010 ACD directive to increase the cost coverage as USPS Marketing Mail Flats remains in violation of 39 U.S.C. § 101(d). In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class. Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and continue to comply with the FY 2015 directive. For USPS Marketing Mail Parcels, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2018 and strongly recommends an advanced remedy in light of the repeated failure of USPS Marketing Mail Parcels to covers its costs.

For the Special Services product Stamp Fulfillment Services, the Commission finds that revenue was not sufficient to cover attributable cost in FY 2018.

For Inbound Letter Post, the Commission finds that FY 2018 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission recommends that the Postal Service, in coordination with the Department of State, negotiate bilateral and multilateral agreements that contain rates for UPU letter post mail that are more compensatory than terminal dues. The Commission further recommends that the Postal Service file rates for the Competitive Inbound Small Packets and Bulky Letters product as soon as possible.

For Media Mail/Library Mail, the Commission finds that the Postal Service's approach to improve cost coverage through above-average price increases is appropriate and

encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail.

For the PHI NSA, the Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 4. The Postal Service terminated the agreement during Contract Year 4, therefore, the Commission finds that no further action is necessary.

## **C. Principal Findings: Competitive Products Rate and Fee Compliance**

In Chapter 4, the Commission finds that revenues for 6 Competitive products did not cover attributable costs and, therefore, did not comply with 39 U.S.C. § 3633(a)(2). The Competitive products that did not cover attributable costs are: two domestic NSAs, International Priority Airmail (IPA), International Money Transfer Service—Inbound (IMTS—Inbound), International Ancillary Services, and Officially Licensed Retail Product (OLRP). The Commission directs the Postal Service to take corrective action, including monthly reporting, reporting on an investigation of cost estimates, reporting on an investigation of rate and revenue discrepancies, and provide an update on the status of the request to seek authority to terminate or renegotiate agreements.

## **D. Principal Findings: Service Performance and Customer Access**

In Chapter 5, the Commission finds that FY 2018 service performance results decreased for a majority of products compared to FY 2017 results. Most products failed to meet their service performance targets for FY 2018.

- The Postal Service met its service performance targets for USPS Marketing Mail High Density and Saturation Letters, USPS Marketing Mail Parcels, Bound Printed Matter Parcels, and most Special Services products.
- Service performance results for all First-Class Mail products, both Periodicals products, USPS Marketing Mail High Density and Saturation Flats/Parcels, USPS Marketing Mail Carrier Route, USPS Marketing Mail Letters, USPS Marketing Mail Flats, USPS Marketing Mail Every Door Direct Mail—Retail, Bound Printed Matter Flats, Media Mail/Library Mail, and Post Office Box Service did not meet their targets.

In the FY 2017 ACD, the Commission directed the Postal Service to provide specific information developed from its First-Class Mail Single-Piece Letters/Postcards metrics as part of its FY 2018 ACR. The Postal Service has made progress in developing quantitative analysis linking its root cause assessments with the impact on service performance results for this product and other First-Class Mail and USPS Marketing Mail products.

The Commission directs the Postal Service to continue reporting specific information developed from its First-Class Mail metrics within 90 days of the issuance of this report and as part of its FY 2019 ACR. Additionally, the Commission directs the Postal Service to provide more transparency regarding the progress and effects of its existing multi-year national service performance improvement strategies.

## **E. Principal Findings: Flats Cost and Service Issues**

In Chapter 6, the Commission finds that unit costs for flats have continued to rise, contribution losses have continued to grow, and flats products have still not met their service performance targets. The Commission continues to be concerned that the Postal Service does not have a specific plan to address flats cost and service issues. In Docket No. RM2018-1, the Commission proposed reporting requirements to increase the transparency of information related to flats, and the accountability of the Postal Service when it reports on operational initiatives designed to reduce flats costs. This information should provide more insight into the specific areas that impact flats, as well as the impact of operational initiatives on flats costs and service issues over time. The Commission anticipates that the data reporting will lead to the development of measurable goals to decrease the costs and improve the service of flats. In the meantime, the Commission will continue to encourage the Postal Service to use its data to ensure it is making cost-effective decisions.



# CHAPTER 1: INTRODUCTION

## A. Statutory Context

Two sections of Title 39 of the United States Code, as amended by the Postal Accountability and Enhancement Act (PAEA),<sup>1</sup> require ongoing, systematic reports and assessments of the financial and operational performance of the Postal Service. The first provision, 39 U.S.C. § 3652, requires the Postal Service to file certain annual reports with the Commission, including an ACR. *See* 39 U.S.C. § 3652(a). The second provision, 39 U.S.C. § 3653, requires the Commission to review the Postal Service's annual reports and issue an Annual Compliance Determination (ACD) regarding whether rates were not in compliance with applicable provisions of Title 39 and whether any service standards were not met. 39 U.S.C. § 3653(b). Together, these provisions establish the ACR and the ACD as integrated mechanisms for providing ongoing accountability, transparency, and oversight of the Postal Service.

The Commission has decided to again report separately on the Postal Service's financial condition and its performance plans and program performance.<sup>2</sup> It will issue both its financial analysis and its analysis of the performance plans and program performance, required by 39 U.S.C. § 3653(d), in the second quarter of 2019. This ACD focuses on the requirements of 39 U.S.C. §§ 3653(b)(1) and (b)(2).<sup>3</sup>

For regulations governing rates and fees, Congress divided mail categories and services between Market Dominant and Competitive products. Sections 3622 and 3626 of Title 39 pertain to rates and fees for Market Dominant products; section 3633 pertains to Competitive products.

In Chapter 2, the Commission evaluates the workshare discounts for Market Dominant products to determine compliance with 39 U.S.C. § 3622(e). Chapter 2 also includes a discussion about preferred rate requirements and the price cap. Chapter 3 focuses on other compliance issues related to Market Dominant products' rates and fees. Chapter 4 covers compliance issues related to the rates and fees of Competitive products. In Chapter 5, the Commission discusses service performance, customer access, and customer satisfaction.

Chapter 6 contains a follow-up discussion of the Commission's directives in the FY 2015 ACD regarding cost and service issues for flat-shaped mailpieces (flats).

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<sup>1</sup> Pub. L. 109-435, 120 Stat. 3198 (2006).

<sup>2</sup> *See* Notice Regarding the Postal Service FY 2018 *Annual Performance Report* and FY 2019 *Annual Performance Plan*, January 3, 2019 (Order No. 4967).

<sup>3</sup> The Commission addresses only rates and fees that have been challenged by Commenters, or otherwise present compliance issues.

There are three appendices to this ACD. Appendix A provides the status of Commission-directed actions from past ACDs and new Commission-directed undertakings in this ACD. Appendix B contains a list of Commenters. Appendix C contains an index of acronyms and abbreviations.

## **B. Timeline and Review of Report**

The Postal Service must file the ACR no later than 90 days after the end of each fiscal year (*i.e.*, 90 days after September 30). The Commission must complete the ACD within 90 days of receiving the ACR. The Postal Service filed the FY 2018 ACR on December 28, 2018. On January 14, 2019, the Commission suspended operations due to a lapse in appropriations and reopened two weeks later on January 29, 2019. As a result of the two-week lapse in appropriations, the Commission issues this ACD on April 12, 2019.

## **C. Focus of the ACR**

In accordance with 39 U.S.C. § 3652, the ACR must provide analyses of costs, revenues, rates, and quality of service sufficient to demonstrate that during the reporting year all products complied with all applicable requirements of Title 39. Additionally, for Market Dominant products, the Postal Service must include product information, mail volumes, and measures of quality of service, including the speed of delivery, reliability, and the levels of customer satisfaction. For Market Dominant products with workshare discounts, the Postal Service must report the per-item cost it avoided through the worksharing activity performed by the mailer, the percentage of the per-item cost avoided that the workshare discount represents, and the per-item contribution to institutional costs. 39 U.S.C. § 3652(b).

## **D. Other Reports**

In conjunction with filing the ACR, the Postal Service must also file its most recent *Comprehensive Statement on Postal Operations*, its *FY 2019 Performance Plan*, and its *FY 2018 Performance Report*. 39 U.S.C. § 3652(g).

## **E. Commission Responsibilities**

Upon receipt of the ACR, the Commission provides an opportunity for public comment on the Postal Service's submissions. 39 U.S.C. § 3653(a). The Commission is responsible for making a written determination as to whether any rates or fees were not in compliance with applicable provisions of chapter 36 of Title 39 or related regulations, and whether any service standards were not met. 39 U.S.C. § 3653(b). If the Commission makes a timely written determination of non-compliance, it is required to take such action as it deems appropriate. 39 U.S.C. § 3653(c).

## F. Procedural History

On December 28, 2018, the Postal Service filed its FY 2018 ACR, covering the period from October 1, 2017, through September 30, 2018.<sup>4</sup> The ACR included an extensive narrative and a substantial amount of detailed public and non-public information contained in library references. The library references include the Cost and Revenue Analysis (CRA), the International Cost and Revenue Analysis (ICRA), cost models supporting workshare discounts, and volume information presented in billing determinants. The library references also include the Postal Service's "Roadmap Document" to the FY 2018 ACR, which contains a list of special studies and a discussion of obsolescence in accordance with 39 C.F.R. § 3050.12.<sup>5</sup>

The Postal Service concurrently filed its 2018 *Annual Report* and *Comprehensive Statement on Postal Operations* as part of Library Reference USPS-FY18-17, December 28, 2018, to the FY 2018 ACR.<sup>6</sup>

On December 31, 2018, the Commission issued an order establishing Docket No. ACR2018 to consider the ACR, appointing a Public Representative to represent the interests of the general public, and establishing January 31, 2019 and February 11, 2019, as the deadlines for comments and reply comments, respectively.<sup>7</sup> On January 29, 2019, due to the lapse of appropriations resulting in suspension of Commission operations, the Commission extended the deadline for filing comments to February 14, 2019, and the deadline for filing responses to February 25, 2019.<sup>8</sup>

On January 9, 2019, and January 10, 2019, United Parcel Service, Inc. (UPS) and the Association for Postal Commerce (PostCom), respectively, filed motions for access to certain non-public library references filed as part of the FY 2018 ACR.<sup>9</sup> On January 28, 2019, the Postal Service filed responses to the motions, partially opposing the requests for

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<sup>4</sup> FY 2018 *Annual Compliance Report*, December 28, 2018 (FY 2018 ACR). The Postal Service made other filings that revise the FY 2018 ACR and select library references. Notice of the United States Postal Service of Revisions to Certain Pages of the FY 2018 Annual Compliance Report – Errata, February 11, 2019; Notice of the United States Postal Service of Revisions to Multiple Annual Compliance Report Folders – Errata, February 11, 2019. Unless otherwise noted, references to the Postal Service's FY 2018 ACR are to its ACR and accompanying library references as revised.

<sup>5</sup> Library Reference USPS-FY18-9, December 28, 2018.

<sup>6</sup> 2017 *Annual Report* and *Comprehensive Statement of Postal Operations*, December 28, 2018. The Postal Service includes as parts of Library Reference USPS-FY18-17 the FY 2018 *Annual Performance Report* and its FY 2019 *Performance Plan*.

<sup>7</sup> Notice of Postal Service's Filing of *Annual Compliance Report* and Request for Public Comments, December 31, 2018 (Order No. 4960); see also 84 FR 826 (January 31, 2019). On January 3, 2019, the Commission established separate comment dates for the Postal Service's FY 2018 *Performance Report* and FY 2019 *Performance Plan*. See Order No. 4967.

<sup>8</sup> Order Extending Comment Deadlines, January 29, 2019 (Order No. 4988).

<sup>9</sup> United Parcel Service, Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 9, 2019, at 1 (UPS Motion for Access); Motion of Association for Postal Commerce for Access to Nonpublic Materials, January 10, 2019, at 1 (PostCom Motion for Access).

access to some of the library references.<sup>10</sup> On January 30, 2019, PostCom filed a reply to the Postal Service's opposition.<sup>11</sup> On January 31, 2019, UPS filed a motion to supplement its motion for access,<sup>12</sup> and on February 4, 2019, it filed a reply to the Postal Service's opposition.<sup>13</sup>

On January 30, 2019, the Commission granted PostCom's motion in part, allowing access to the library references to which the Postal Service did not oppose.<sup>14</sup> On February 1, 2019, the Commission similarly granted UPS's motion in part.<sup>15</sup> On February 8, 2019, the Commission issued an order granting access to all of the library references requested in both UPS's and PostCom's motions.<sup>16</sup>

## G. Methodology Changes

The FY 2018 ACR generally employs the methodologies used most recently by the Commission unless the Commission has approved a change in methodology.<sup>17</sup> In this ACR proceeding, the Postal Service relies upon eight approved or partially approved methodology changes.<sup>18</sup>

Docket No. RM2018-5 (Proposal Two) proposed new sampling and weighting procedures for the city carrier portion of the In-Office Cost System (IOCS). The new sampling design includes the use of city carrier Time and Attendance Collection System (TACS) workhours to weight sampling data by zone (large and small) for weekday/Saturday IOCS morning readings and to create city carrier cost control totals for morning and afternoon costs and

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<sup>10</sup> United States Postal Service Response to United Parcel Service Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 28, 2019 (Response to UPS Motion for Access); United States Postal Service Response to Association for Postal Commerce's Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 28, 2019 (Response to PostCom Motion for Access).

<sup>11</sup> Motion for Leave to Reply and Reply of the Association for Postal Commerce to United States Postal Service Response to Motion Requesting Access to Non-Public Materials, January 30, 2019 (PostCom Reply to Postal Service Opposition for Motion for Access).

<sup>12</sup> United Parcel Service, Inc.'s Motion to Supplement its January 9, 2019 Motion Requesting Access to Non-Public Materials Under Protective Conditions, January 31, 2019 (UPS Motion to Supplement).

<sup>13</sup> United Parcel Service, Inc.'s Motion for Leave to Reply and Reply to the United States Postal Service's Response to Motion Requesting Access to Non-Public Materials, February 4, 2019 (UPS Reply to Postal Service Motion for Access).

<sup>14</sup> Order Granting in Part Motion for Access, January 30, 2019 (Order No. 4994).

<sup>15</sup> Order Granting in Part Motion for Access, February 1, 2019 (Order No. 4996).

<sup>16</sup> Order Granting Motions for Access, February 8, 2019 (Order No. 4998). The Commission also extended the deadline for UPS and PostCom to file initial comments to February 19, 2019, and extended the time for reply comments responding to issues raised in those comments to March 1, 2019. Order No. 4998 at 28.

<sup>17</sup> See FY 2018 ACR at 4-6.

<sup>18</sup> Library Reference USPS–FY18–9, December 28, 2018. See Docket No. RM2018-4, Order on Analytical Principles Used in Periodic Reporting (Proposal One), July 13, 2018 (Order No. 4712); Docket No. RM2018-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), July 19, 2018 (Order No. 4719); Docket No. RM2018-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), August 13, 2018 (Order No. 4757); Docket No. RM2018-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), September 21, 2018 (Order No. 4827); Docket No. RM2018-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), August 28, 2018 (Order No. 4798); Docket No. RM2018-10, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 12, 2018 (Order No. 4855); Docket No. RM2019-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Eight), November 28, 2018 (Order No. 4894); Docket No. RM2018-5, Order Approving in Part Proposal Two, January 8, 2019 (Order No. 4972).

day of week group (distinguishing Sundays/holidays from weekdays/Saturdays). Additionally, the Postal Service proposed that the Product Tracking and Reporting (PTR) scan data be used as the product distribution key for city carrier Sunday/holiday costs and as a methodology for city carriers acting as supervisors on Sundays/holidays costs.

The Commission approved the use of TACS workhours to develop Sunday and holiday city carrier cost control totals, the use of the PTR scan data as a distribution key for Sunday/holiday city carrier costs, and the sampling and weighting methodology for city carrier IOCS morning readings in small zones. Order No. 4972 at 29-30.

Additionally, the Postal Service identifies the methodological change regarding product costs discussed in response to Commission Order No. 3506,<sup>19</sup> and the approach for reporting group incremental cost estimates used by the Commission in the FY 2017 ACD.<sup>20</sup> As a result, the Postal Service's FY 2018 CRA reports group incremental cost estimates when available as the attributable costs of combinations of products, including the Market Dominant classes. FY 2018 ACR at 5. As a consequence, the costs labeled as attributable costs in each row of the FY 2018 CRA are not directly comparable to costs reported with the same label in the CRAs filed prior to FY 2017. *Id.* at 6.

The Postal Service uses a new methodology to distribute the revenues received from inbound LC/AO mail, reported as the Inbound Letter Post and Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 products.<sup>21</sup> The Commission did not previously approve this new methodology. Although the Commission uses this methodology for assessing compliance in this ACD, it directs the Postal Service to file a petition for the initiation of a proceeding to consider this proposed change in analytical principles within 90 days of issuance of this ACD.

## H. Product Analysis

The Postal Service provides an analysis of each Market Dominant product, including Special Services, and domestic and international NSAs active during FY 2018. This analysis includes a discussion of workshare discounts and passthroughs for Market Dominant products, required by 39 U.S.C. § 3652(b). The Postal Service also provides data for Competitive products and discusses the data with references to standards under 39 U.S.C. § 3633 and 39 C.F.R. § 3015.7. Last, the Postal Service discusses two Competitive market tests conducted in FY 2018.<sup>22</sup>

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<sup>19</sup> Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016 (Order No. 3506); *see also* Docket No. RM2016-2, Notice of Errata, October 19, 2016.

<sup>20</sup> Docket No. ACR2017, *Annual Compliance Determination*, March 29, 2018, at 8-10 (FY 2017 ACD).

<sup>21</sup> *See* Responses of the United States Postal Service to Questions 1-28 of Chairman's Information Request No. 6, February 8, 2019, question 17 (Responses to CHIR No. 6).

<sup>22</sup> FY 2018 ACR at 75.

In addition, the Commission posts the most current workshare cost avoidance models on its website. The Commission used those models in its preparation of this ACD.

## I. Service Performance

The ACR also included information regarding service performance, customer satisfaction, and consumer access, as required under 39 U.S.C. § 3652(a)(2) and 39 C.F.R. § 3055.<sup>23</sup>

## J. Confidentiality

Commission rules require the Postal Service, when it files non-public materials with the Commission, to simultaneously file an application for non-public treatment. 39 C.F.R. § 3007.200. The application for non-public treatment must clearly identify all non-public materials and fulfill the burden of persuasion that the materials should be withheld from the public by showing that the information is commercially sensitive and by identifying the nature, extent, and likelihood of commercial harm that would result from disclosure. *Id.* § 3007.201. The FY 2018 ACR included such an application with respect to certain Competitive and international Market Dominant products. FY 2018 ACR at Attachment 2.

UPS and PostCom submitted motions for access to library references concerning these products, and the Postal Service opposed the motions in part. The motions included a list of non-public library references to which UPS and PostCom requested access, specified that access was necessary for the purpose of filing comments in this ACR, and provided the requisite statements of protective conditions and signed certifications from each individual for whom UPS and PostCom sought access. *See* Order No. 4998 at 16. Accordingly, the Commission found that the motions satisfied the Commission's rules for seeking access to non-public information. *Id.*; 39 C.F.R. § 3007.301.

The Postal Service's opposition to the motions failed to show good cause for denying access to the non-public library references. Order No. 4998 at 18-28. The Commission found that the presence of commercially sensitive information alone is not grounds to deny access, that Commission rules and protective conditions adequately safeguard the Postal Service and third parties from potential harms, and that granting access does not negatively impact the Postal Service's ability to contract with customers. *Id.* The Commission found that "denying access to non-public materials would significantly restrict the ability of interested persons to comment on the Postal Service's compliance under the PAEA." *Id.* at 28. Accordingly, the Commission granted UPS's and PostCom's motions for access. *Id.* at 29.

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<sup>23</sup> FY 2018 ACR, chapter III.

## K. Requests for Additional Information

Twenty-six Chairman's Information Requests (CHIRs) were issued with respect to the ACR from January 4, 2019, to April 5, 2019. The Postal Service responded to the CHIRs, often filing supplemental information in support of the responses.<sup>24</sup>

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<sup>24</sup> Several of the Postal Service's CHIR responses were accompanied by motions requesting late acceptance. *E.g.*, Motion of the United States Postal Service for Late Acceptance of Response to Question 16 of Chairman's Information Request No. 1, January 28, 2019. Each of the Postal Service's motions for late acceptance is granted.

# CHAPTER 2: MARKET DOMINANT PRODUCTS: PRICING REQUIREMENTS

## A. Introduction

The PAEA introduced three pricing requirements for Market Dominant products: a class-level price cap based upon changes in the consumer price index for all urban consumers (CPI-U), 39 U.S.C. § 3622(d)(2)(A), a cap on workshare discounts, *id.* § 3622(e)(2), and a cap on preferred rates, *id.* § 3626 (a)(4)-(7). Chapter 2 discusses these requirements.

## B. The Class-Level Price Cap

The Commission approved price adjustments that went into effect during FY 2018, which complied with the price cap provision, in accordance with 39 C.F.R. § 3010.23.<sup>25</sup>

## C. Workshare Discounts

Workshare discounts provide reduced prices for mail that is prepared or entered in a manner that avoids certain activities the Postal Service would otherwise have to perform. These discounts are based on the estimated avoided costs that result from the mailer performing the activity instead of the Postal Service. 39 U.S.C. § 3622(e)(2) directs the Commission to ensure that workshare discounts do not exceed the costs the Postal Service avoids as a result of the worksharing activity.<sup>26</sup> The statute provides four exceptions to this requirement. *See* 39 U.S.C. §§ 3622(e)(2)(A)-(D).

PostCom disagrees with the Commission's requirements for reporting on passthroughs that exceed 100 percent, suggesting that it "causes the Postal Service to err on the side of reducing passthroughs below 100 [percent]" at the expense of the Postal Service's pricing flexibility.<sup>27</sup> PostCom points out that "despite estimated passthroughs that exhibit considerable volatility due to methodological changes, postal inefficiency, and normal variation, the Postal Service and the Commission continue to use only one technique – higher prices – to attempt to achieve compliance[.]" PostCom Comments at 2. Furthermore, PostCom suggests that the PAEA "does not establish an absolute requirement that

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<sup>25</sup> Docket No. R2018-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 9, 2017 (Order No. 4215).

<sup>26</sup> The workshare discount divided by the avoided costs and expressed as a percentage is referred to as the passthrough. Passthroughs above 100 percent indicate discounts that are greater than avoided costs. Passthroughs below 100 percent indicate discounts that are below avoided costs.

<sup>27</sup> Comments of the Association for Postal Commerce, February 19, 2019, at 5-6 (PostCom Comments).



workshare discounts never exceed 100 percent of avoided costs,” and therefore, the Commission should allow passthroughs to exceed 100 percent if one of the statutory exceptions applies, without encouraging the Postal Service to work towards reducing the passthrough amount. *Id.* at 4, 9. The Postal Service disagrees with PostCom’s suggestion that the Postal Service prioritizes pricing efficiency over operational efficiency and notes that its approach is consistent with the Commission’s direction and section 3622(e).<sup>28</sup>

The Commission analyzes discounts to determine whether they comply with applicable statutory provisions. Section 3653(b)(1) of Title 39 requires the Commission to base its determinations on rates and fees “in effect” during FY 2018. The prices in effect in FY 2018 were the prices approved in Docket No. R2017-1 (through January 20, 2018) and R2018-1 (after January 20, 2018). The discounts evaluated for compliance are the Docket No. R2018-1 prices. Workshare discounts that were not greater than the associated avoided costs were in compliance for FY 2018.

As the Commission has previously acknowledged, although passthroughs below 100 percent are lawful, they send inefficient pricing signals to mailers. FY 2017 ACD at 15. Passthroughs set as close as possible to 100 percent to promote pricing efficiency, lower the total combined costs for mailers and the Postal Service, and encourage the retention and growth of the Postal Service’s most profitable products. In instances where the Commission finds that discounts set above avoided costs are nonetheless lawful because they promote operational efficiency (39 U.S.C. § 3622(e)(2)(D)), the Commission encourages the reduction of those discounts to promote pricing efficiency. If the operational efficiency results in cost savings to the Postal Service, the Postal Service should quantify the impact of the operational efficiency in its cost avoidance models. The Commission commends the Postal Service for reducing the number of passthroughs above 100 percent in FY 2018. Two classes of mail are fully compliant with the section 3653(b)(1) requirement—this has not been achieved by even one class of mail in any year since the Commission’s ACD began reporting on each class individually.

The sections below review, for each class of mail, workshare discounts that are greater than the avoided costs associated with the discounts.

## 1. First-Class Mail

No First-Class Mail workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2018 and, therefore, all discounts were consistent with 39 U.S.C. § 3622(e) in FY 2018. Tables II-1, II-2, and II-3 below demonstrate the compliance for this class.

Pitney Bowes Inc. (Pitney Bowes), NAPM, and Idealliance suggest that the workshare discounts for certain First-Class Mail products should be set closer to 100 percent of the

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<sup>28</sup> Postal Service Reply to UPS and PostCom Comments, March 1, 2019, at 6-7 (Postal Service Reply Comments to UPS and PostCom).

avoided costs.<sup>29</sup> Pitney Bowes notes that all workshare discounts are in compliance with the worksharing provisions in 39 U.S.C. § 3622(e)(2), but suggests that “the rate design does not maximize pricing and operational efficiency as intended by the [PAEA].” Pitney Bowes Comments at 2. NAPM and Idealliance suggest that their members “could sell presort services to even more businesses if the incentive reflected the full costs avoided by the Postal Service,” which would result in a shift to more efficient products. NAPM/Idealliance Comments at 4.

In its reply comments, the Postal Service notes that these commenters do not dispute the compliance of the workshare discounts and states that it “will continue to seek opportunities to align workshare discounts with avoided costs where appropriate and advisable.”<sup>30</sup>

*In this proceeding, the Commission evaluates workshare discounts for compliance with statutory provisions. The Commission finds the discounts for First-Class Mail were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2018.*

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<sup>29</sup> See Comments of Pitney Bowes Inc., February 14, 2019, at 2 (Pitney Bowes Comments); Comments of the National Association of Presort Mailers and Idealliance, February 14, 2019, at 3-4 (NAPM/Idealliance Comments).

<sup>30</sup> Reply Comments of the United States Postal Service, February 25, 2019, at 2-3 (Postal Service Reply Comments).

**Table II-1**  
**First-Class Presorted Letters/Cards**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)                                     | FY 2018                         |                                   |             |
|--|---------------------------------|-----------------------------------|-------------|
|  | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>First-Class Mail Automation Letters: Barcoding &amp; Presorting</b> |                                 |                                   |             |
| Automation Mixed AADC Letters (Metered Letters)                        | 4.6                             | 6.7                               | 68.7%       |
| Automation AADC Letters (Automation Mixed AADC Letters)                | 1.6                             | 2.4                               | 66.7%       |
| Automation 5-Digit Letters (Hybrid Automation AADC/3-Digit Letters)    | 3.0                             | 3.4                               | 88.2%       |
| <b>First-Class Mail Non-automation Letters: Barcoding</b>              |                                 |                                   |             |
| Non-automation Presort Letters (Metered Letters)                       | 1.2                             | 7.5                               | 16.0%       |
| <b>First-Class Mail Automation Cards: Barcoding &amp; Presorting</b>   |                                 |                                   |             |
| Automation Mixed AADC Cards (Non-automation Presort Cards)             | 0.6                             | 1.0                               | 60.0%       |
| Automation AADC Cards (Automation Mixed AADC Cards)                    | 0.6                             | 0.7                               | 85.7%       |
| Automation 5-Digit Cards (Hybrid Automation AADC/3-Digit Cards)        | 1.1                             | 1.1                               | 100.0%      |

Source: PRC-LR-ACR2018/3.

**Table II-2**  
**First-Class Mail Flats**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)                                   | FY 2018                         |                                   |             |
|--|---------------------------------|-----------------------------------|-------------|
|  | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>First-Class Mail Automation Flats: Barcoding &amp; Presorting</b> |                                 |                                   |             |
| Automation ADC Flats (Automation Mixed ADC Flats)                    | 7.3                             | 11.2                              | 65.2%       |
| Automation 3-Digit Flats (Automation ADC Flats)                      | 3.9                             | 5.0                               | 78.0%       |
| Automation 5-Digit Flats (Automation 3-Digit Flats)                  | 11.9                            | 17.2                              | 69.2%       |

Source: PRC–LR–ACR2018/3.

**Table II-3**  
**First-Class Single Piece Letters/Cards**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)  | FY 2018                         |                                   |             |
|---|---------------------------------|-----------------------------------|-------------|
|   | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>First-Class Mail Single Piece Letters: Qualified Business Reply Mail Barcoding</b> |                                 |                                   |             |
| QBRM (Handwritten Reply Mail)   | 1.5                             | 1.8                               | 83.3%       |
| <b>First-Class Mail Single Piece Cards: Qualified Business Reply Mail Barcoding</b>   |                                 |                                   |             |
| QBRM (Handwritten Reply Cards)  | 1.5                             | 1.8                               | 83.3%       |

Source: PRC–LR–ACR2018/3.

## 2. Periodicals

### a. Fiscal Year 2018 Periodicals Workshare Discounts

#### (1) Passthroughs over 100 percent

One In-County Periodicals workshare discount and eight Outside County Periodicals workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2018. Table II-4 identifies these nine passthroughs.

**Table II-4**  
**Periodicals Workshare Discounts Exceeding Avoided Costs<sup>31</sup>**

| Type of Worksharing                         | Year End Discount (Cents) | Unit Cost Avoidance (Cents) | Passthrough |
|---|---------------------------|-----------------------------|-------------|
| <b>Outside County</b>                       |                           |                             |             |
| <b>Presorting</b>                           |                           |                             |             |
| Saturation                                  | 2.1                       | 2.0                         | 105.0%      |
| Machinable Non-automation 3-Digit/SCF Flats | 5.8                       | 5.7                         | 101.8%      |
| Machinable Automation 3-Digit/SCF Flats     | 5.1                       | 5.0                         | 102.0%      |
| Non-machinable Non-automation 5-Digit Flats | 13.2                      | 9.3                         | 141.9%      |
| Non-machinable Automation 5-Digit Flats     | 13.2                      | 9.6                         | 137.5%      |
| <b>Presorting Automation Letters</b>        |                           |                             |             |
| Automation ADC Letters                      | 3.7                       | 1.8                         | 205.6%      |
| Automation 3-Digit Letters                  | 2.0                       | 0.4                         | 500.0%      |
| Automation 5-Digit Letters                  | 6.8                       | 2.2                         | 309.1%      |
| <b>In-County</b>                            |                           |                             |             |
| <b>Presorting Automation Letters</b>        |                           |                             |             |
| Automation 3-Digit Letters                  | 1.0                       | 0.6                         | 166.7%      |

Source: PRC–LR–ACR2018/5.

Workshare discounts are allowed to exceed avoided costs if a statutory exception applies. *See* 39 U.S.C. § 3622(e). The Postal Service justifies Periodicals workshare discounts that exceeded 100 percent passthroughs on the basis of 39 U.S.C. § 3622(e)(2)(C), which authorizes workshare discounts greater than avoided costs if provided in connection with a subclass that consists exclusively of mail matter with educational, cultural, scientific, or informational (ECIS) value. FY 2018 ACR at 38.

<sup>31</sup> The Periodicals pricing structure differs from the other Market Dominant classes, in that it includes piece, pound, bundle, and container elements. *See* PRC–LR–ACR2018/5 for a comprehensive display of all Periodicals prices and worksharing relationships for FY 2018.

## (2) Commission Analysis

### (a) Statutory Considerations for Passthroughs

Because the Periodicals class consists exclusively of ECSI mail, the Commission finds that the Periodicals workshare discounts that exceeded avoided costs in FY 2018 were consistent with 39 U.S.C. § 3622(e). However, given that the Periodicals class does not cover costs, sending efficient price signals is particularly important. Although 39 U.S.C. § 3622(e) allows workshare discounts to exceed avoided costs if a statutory exception applies and does not prohibit the Postal Service from offering workshare discounts with passthroughs that are less than 100 percent, other statutory requirements and objectives focus on sending efficient pricing signals to mailers. This concept is relevant to all workshare discounts, including those in subclasses that consist exclusively of ECSI value. Generally, prices must “enable the Postal Service, under best practices of honest, efficient, and economical management, to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.” 39 U.S.C. § 404(b). Moreover, the Market Dominant ratemaking system is designed to achieve nine objectives, of which one is “[t]o maximize incentives to reduce costs and increase efficiency.” 39 U.S.C. § 3622(b)(1). Therefore, the Postal Service should, in all cases, consider whether such passthroughs send efficient pricing signals to mailers.

Inefficient pricing signals may contribute to Periodicals revenues not covering costs if the price does not incentivize mailers to prepare Periodicals mailings efficiently. Continued improvement of the relationship between discounts and avoided costs should signal to the mailer the mail preparation method that is most efficient for both the Postal Service and the mailer. The Commission emphasized in past ACDs that, as a general principle, passthroughs closer to 100 percent would send better pricing signals to mailers and would increase contribution and cost savings to the Postal Service.<sup>32</sup>

In Docket No. R2018-1, the Postal Service adjusted prices for sacks and trays to improve cost coverage, adjusted prices for bundles and pallets based on estimated bottom-up costs, and increased the price difference between Carrier Route and Machinable Automation 5-Digit Flats to encourage preparation of more Carrier Route pieces.<sup>33</sup> In Docket No. R2019-1, the Postal Service proposed above-average increases for trays and sacks to boost their cost coverage, proposed above-average increases for all bundles and pallet containers to raise their cost coverage and encourage operational efficiency, increased the price difference between basic Carrier Route and Machinable Automation 5-Digit Flats to encourage preparation of Carrier Route pieces, and increased piece prices to bring all workshare

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<sup>32</sup> See Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010, at 76 (FY 2009 ACD); Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011, at 96-97 (FY 2010 ACD); Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012, at 108-110 (FY 2011 ACD); Docket No. ACR2012, *Annual Compliance Determination*, March 28, 2013, at 100-101 (FY 2012 ACD); Docket No. ACR2013, *Annual Compliance Determination*, March 27, 2014, at 21-23 (FY 2013 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015, at 14-16 (FY 2014 ACD); Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 17-19 (FY 2015 ACD); Docket No. ACR2016, *Annual Compliance Determination*, March 28, 2017, at 18-20 (FY 2016 ACD); FY 2017 ACD at 20-23.

<sup>33</sup> Docket No. R2018-1, Notice of Market Dominant Price Adjustment, October 6, 2017, at 23.

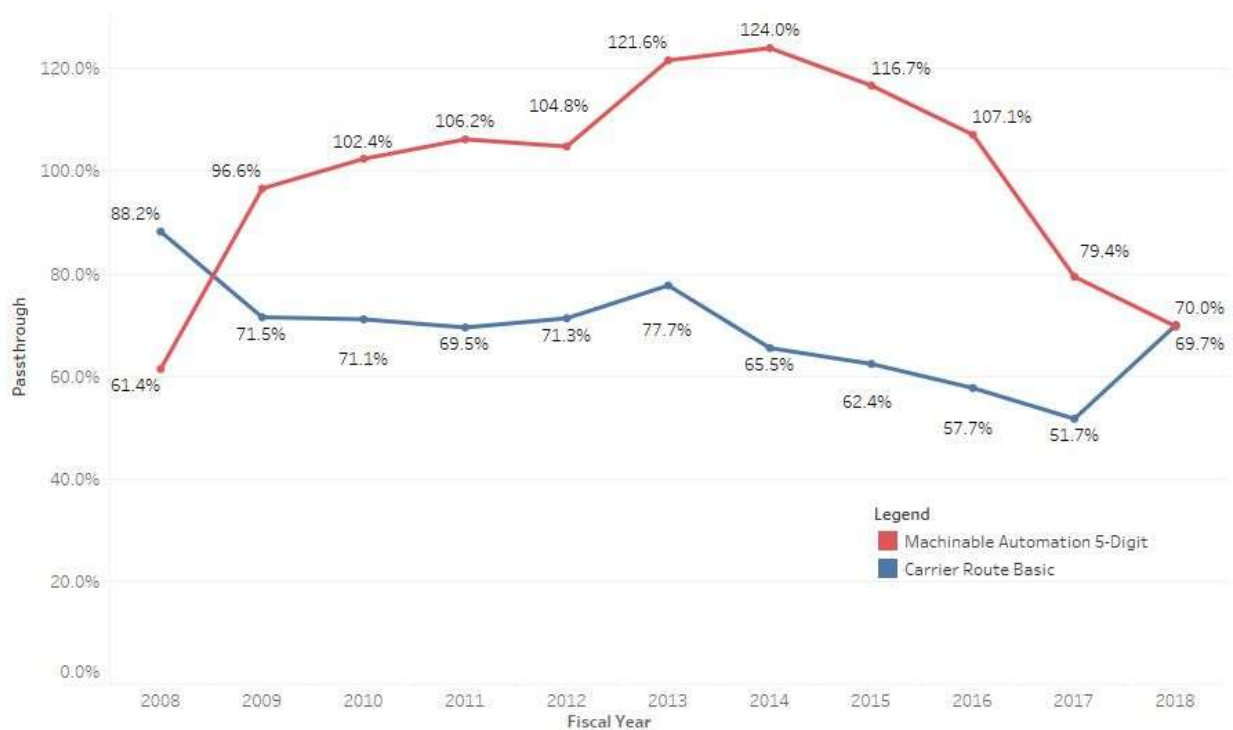
discount passthroughs down to 100 percent or below.<sup>34</sup> While the Commission notes that some improvements have been made, continued improvement of Periodicals pricing efficiency would maximize contribution (or in this case, minimize negative contribution) and cost savings.

(b) Sending Efficient Pricing Signals

Since FY 2013, the Commission has highlighted the growing disparity between the Postal Service's pricing signals that appear to encourage 5-Digit presortation and discourage Carrier Route presortation.<sup>35</sup>

Most Outside County Periodicals volume is presorted to Machinable Automation 5-Digit or Carrier Route Basic. Figure II-1 details changes in passthroughs for Carrier Route Basic and Machinable Automation 5-Digit piece presorting from FY 2008 to FY 2018.

**Figure II-1**  
**Carrier Route Basic and Machinable Automation 5-Digit Passthroughs**



Source: PRC-LR-ACR2018/5.

<sup>34</sup> Docket No. R2019-1, United States Postal Service Notice of Market-Dominant Price Change, October 10, 2018, at 25.

<sup>35</sup> See FY 2013 ACD at 21; FY 2014 ACD at 15; FY 2015 ACD at 18; FY 2016 ACD at 19; FY 2017 ACD at 22.

*Comments.* MPA and ANM contend that the Commission should require the Postal Service to set workshare passthroughs at or near 100 percent to promote lowest combined costs.<sup>36</sup> They also state that passing through 100 percent of the Carrier Route Basic cost avoidance will translate into real, measurable cost savings and help the Postal Service retain the most efficient Periodicals mail. MPA/ANM Comments at 6. The Postal Service replies that passthroughs below 100 percent are permissible under the PAEA, and there is no statutory basis to force the Postal Service to pass through more of the cost avoidance than it currently does. Postal Service Reply Comments at 6. The Postal Service states that it will continue to use its pricing flexibility to encourage efficient preparation of Periodicals through price signals, workshare discount adjustments, and other initiatives consistent with statutory requirements. *Id.* at 6-7.

*Commission Analysis.* In FY 2018, the gap between the passthroughs for Machinable Automation 5-Digit and Carrier Route shrunk considerably. Both passthroughs are now under 100 percent.

However, prices that yield more passthroughs closer to 100 percent would further promote Periodicals pricing efficiency. Discounts are most efficient when they are set at their corresponding avoided costs. Passthroughs set under 100 percent generally reflect a situation where the discount offered to mailers is less than the Postal Service's avoided cost. A discount that is "too small" discourages efficiency if a mailer could perform the work at a lower cost than the Postal Service, but does not do so because the cost to the mailer for performing the work required to receive the discount exceeds the amount of the discount.

b. Fiscal Year 2017 ACD Directives

In the FY 2017 ACD, the Commission directed the Postal Service to include an updated version of the FY 2017 ACD Periodicals Pricing Report in its FY 2018 ACR. FY 2017 ACD at 24. The updated report was to include an analysis of how the pricing in Docket No. R2018-1 impacted the cost, contribution, and revenue of Periodicals in FY 2018 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2018. *Id.*

The Postal Service filed this updated report as Library Reference USPS-FY18-44, December 28, 2018, Update to Periodicals Pricing Report (Periodicals Pricing Report).

*Comments.* The Public Representative comments that she appreciates the provision of the Periodicals Pricing Report, which, together with the previous reports, allows for a better understanding of the dynamics and impacts of Periodicals pricing.<sup>37</sup> She states that she does not have any recommendations specific to the Periodicals class at this time. PR Comments at 47.

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<sup>36</sup> Comments of MPA - The Association of Magazine Media and the Alliance of Nonprofit Mailers, February 14, 2019, at 2 (MPA/ANM Comments).

<sup>37</sup> Public Representative Comments, February 14, 2019, at 47 (PR Comments).



*Commission Analysis.* In the Periodicals Pricing Report, the Postal Service discusses two significant initiatives intended to improve Periodicals pricing: (1) pricing pieces, bundles, and containers closer to estimated unit processing costs to improve the efficiency signals given to customers, and (2) making modifications to the container preparation hierarchy to encourage the preparation of 5-Digit Carrier Routes pallets. Periodicals Pricing Report at 3.

The Postal Service states that by establishing prices at or near estimated unit processing costs, a customer's mailing decisions will be based on the assessment of whether the customer or the Postal Service can perform necessary sortation more efficiently. *Id.* In Docket No. R2018-1, the Postal Service increased the price difference between Basic Carrier Route and Automation 5-Digit rates. *Id.* at 5. The Postal Service reports that, in the aggregate, customers responded to this incentive by increasing the volume of pieces not needing piece sortation (Carrier Route, High Density, and Saturation presorting) by approximately 1 percent. *Id.* The Postal Service also states that comparing Quarters 3 and 4 of FY 2017 with Quarters 3 and 4 of FY 2018 indicates that the low cost preparation profile of Periodicals Outside County has increased. *Id.* at 6-7.

The Postal Service contends that the pricing incentives designed to encourage the preparation of 5-Digit Carrier Route pallets appear to be successful. *Id.* at 3. In comparing Quarter 3 of FY 2017 and Quarter 3 of FY 2018, the Postal Service states that the proportion of Periodicals mail prepared on 5-Digit Carrier Route pallets increased from 6.3 percent to 10.1 percent. *Id.* However, the Postal Service provides that it is not feasible to isolate the impacts of these price changes from the multitude of other co-variates that affect customers' mailing decisions and from the evolution of the Periodicals class. *Id.* at 4.

The data provided by the Postal Service show that the mail processing cost per piece, bundle, and container decreased after the price change in Docket No. R2018-1. *Id.* at 7. At the same time, the delivery and transportation cost per piece, bundle, and container increased.<sup>38</sup> The revenue per piece, bundle, and container decreased. *Id.* at 8. In total, because the overall costs increased while the revenue decreased, Periodicals contribution deteriorated in FY 2018.

The Commission concludes that, on the whole, the Postal Service's report meaningfully responds to the Commission's directive. In the Periodicals Pricing Report, the Postal Service provided a robust narrative and workpapers containing quantitative analyses. By performing a quantitative analysis of changes in cost, contribution, and revenue after implementation of new prices, the Postal Service has begun to make progress in analyzing the pricing efficiency of Periodicals. Such analysis provides a useful tool for the Postal Service to more fully understand potential impacts of new prices on cost, revenue, and contribution. In future rate changes, such analysis can aid in increasing Periodicals pricing efficiency.

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<sup>38</sup> See PRC-LR-ACR2018/5, Excel file "FY18 Periodicals Cost Coverage.xlsx."

*The Commission directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2019 ACR. The report must include an analysis of how the pricing in Docket No. R2019-1 impacted the cost, contribution, and revenue of Periodicals in FY 2019 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2019.*

### 3. USPS Marketing Mail<sup>39</sup>

Fourteen USPS Marketing Mail workshare discounts exceeded the avoided costs of the corresponding mailer workshare activity in FY 2018. These fourteen workshare discounts are in the Letters, Flats, Parcels, Carrier Route, and High Density and Saturation Letters products.

#### a. Letters

The following five workshare discounts for Letters exceeded avoided costs in FY 2018:

- Automation Mixed automated area distribution center (AADC) Letters
- Non-automation 3-Digit Non-machinable Letters
- Non-automation 5-Digit Non-machinable Letters
- Destination network distribution center (DNDC) dropship Letters
- Destination sectional center facility (DSCF) dropship Letters

Each is discussed below. All remaining discounts offered for Letters were less than or equal to avoided costs, and were thus consistent with 39 U.S.C. § 3622(e) in FY 2018.<sup>40</sup> Table II-5 shows the workshare discounts for the Letters product for FY 2018.

<sup>39</sup> In FY 2018, all USPS Marketing Mail commercial and nonprofit discounts were equal. *See, e.g.*, Docket No. R2013-1, Order on Standard Mail Rate Adjustments and Related Mail Classification Changes, December 11, 2012, at 8 (Order No. 1573) (“[D]isparities between commercial and nonprofit discounts are impermissible unless supported by a rational justification that the differential treatment is ‘specifically authorized’ by another section of the statute.” (citation omitted)).

<sup>40</sup> Pitney Bowes comments that discounts for USPS Marketing Mail Automation Letters (specifically, the discounts for Automation AADC Letters and Automated 5-Digit Letters) should be increased so that these discounts would be set closer to avoided costs. Pitney Bowes Comments at 1-2. The Commission has noted before that workshare discounts set substantially below avoided costs send inefficient pricing signals to mailers and reduce pricing efficiency. *See* Chapter II.C., *supra*. The Commission therefore encourages the Postal Service to increase such discounts. Nevertheless, for purposes of compliance with 39 U.S.C. § 3622(e) such discounts are lawful. *See id.*

**Table II-5**  
**USPS Marketing Mail Letters (Commercial and Nonprofit)**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)   | FY 2018                         |                                   |             |
|--|---------------------------------|-----------------------------------|-------------|
|  | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>USPS Marketing Mail Automation Letters: Barcoding (Cents/Piece)</b>                           |                                 |                                   |             |
| Automation Mixed AADC Letters<br>(Non-automation MAADC BC-Benchmark) <sup>41</sup>               | 1.3                             | 0.6                               | 216.7%      |
| <b>USPS Marketing Mail Automation Letters: Presorting (Cents/Piece)</b>                          |                                 |                                   |             |
| Automation AADC Letters (Automation Mixed AADC Letters)  | 1.3                             | 1.8                               | 72.2%       |
| Automation 5-Digit Letters (Weighted Average Automation<br>AADC & 3-Digit Letters) <sup>42</sup> | 2.3                             | 2.7                               | 85.2%       |
| <b>USPS Marketing Mail Non-automation Letters: Presorting (Cents/Piece)</b>                      |                                 |                                   |             |
| Non-automation AADC Machinable Letters<br>(Non-automation Mixed AADC Machinable Letters)         | 1.3                             | 2.5                               | 52.0%       |
| Non-automation ADC Non-machinable Letters<br>(Non-automation Mixed ADC Non-machinable Letters)   | 7.3                             | 7.5                               | 97.3%       |
| Non-automation 3-Digit Non-machinable Letters<br>(Non-automation ADC Non-machinable Letters)     | 2.3                             | 2.2                               | 104.5%      |
| Non-automation 5-Digit Non-machinable Letters<br>(Non-automation 3-Digit Non-machinable Letters) | 7.1                             | 7.0                               | 101.4%      |
| <b>USPS Marketing Mail Letters: Dropship (Cents/Piece)</b>                                       |                                 |                                   |             |
| DNDC Letters (Origin Letters)  | 2.4                             | 1.9                               | 126.3%      |
| DSCF Letters (Origin Letters)  | 3.1                             | 2.3                               | 134.8%      |

Source: PRC-LR-ACR2018/4.

### (1) Automation Mixed AADC Letters

The passthrough for Automation Mixed AADC Letters was 216.7 percent in FY 2018, down from 1300.0 percent in FY 2017. FY 2018 ACR at 20. The Postal Service explains that this decrease was due to a significant increase in cost avoidance resulting from the methodology changes approved in Docket No. RM2019-1.<sup>43</sup> Although this passthrough remains above 100 percent, the Postal Service justifies it pursuant to 39 U.S.C.

<sup>41</sup> See Order No. 4894 at 7-8.

<sup>42</sup> See Docket No. RM2012-6, Order Revising Benchmark Used to Calculate the Costs Avoided by Automation First-Class 5-Digit Cards and Standard Regular 5-Digit Letter Mail, July 29 2013, at 5 (Order No. 1793).

<sup>43</sup> *Id.*; see also Order No. 4894.

§ 3622(e)(2)(D), asserting that it encourages mailers to provide Intelligent Mail barcodes (IMbs) on their mailpieces, which improves operational efficiency. FY 2018 ACR at 20. The Postal Service further states that Full-Service IMbs allow for data collection which provides insight into mail processing operations and can be used to improve mailers' preparation processes.<sup>44</sup> The Postal Service asserts that such implicit benefits are difficult to capture in the cost avoidance models. January 28 Responses to CHIR No. 3, questions 7.a.-b. The Postal Service expresses its intent to gradually lower this passthrough in the next Market Dominant price adjustment. *Id.* question 7.c.

The Public Representative agrees that this excessive passthrough has been substantially reduced as a result of the methodology changes approved in Docket No. RM2019-1. PR Comments at 59. She concludes that even though this passthrough continues to exceed 100 percent, it is justified pursuant to 39 U.S.C § 3622(e)(2)(D). *Id.*

*The Commission finds that the Automation Mixed AADC Letters discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2018. The Postal Service should continue its FY 2016 commitment to align the discount with avoided cost.*<sup>45</sup>

(2) Non-automation 3-Digit Non-machinable Letters and  
Non-automation 5-Digit Non-machinable Letters

The discounts for Non-automation 3-Digit Non-machinable Letters and Non-automation 5-Digit Non-machinable Letters had passthroughs of 104.5 percent and 101.4 percent, respectively, in FY 2018. FY 2018 ACR at 20-21. In Docket No. R2019-1, the Postal Service reduced these discounts by 0.1 cents for Non-automation 3-Digit Non-machinable Letters and 0.3 cents for Non-automation 5-Digit Non-machinable Letters. *Id.* The Postal Service asserts that when the Docket No. R2019-1 prices take effect, both passthroughs will be at or below 100 percent. *Id.*

The Public Representative asserts that no statutory exception was cited to justify these excessive passthroughs, and they were therefore out of compliance for FY 2018. PR Comments at 63-64. Nevertheless, she agrees with the Postal Service that both of these passthroughs will have been brought into compliance once the Docket No. R2019-1 price adjustment is implemented. *Id.* at 64. Accordingly, she states that no further action is necessary to bring these passthroughs into compliance. *Id.*

*The Commission finds that these discounts were not in compliance in FY 2018. Due to the discount approved in Docket No. R2019-1, the Commission finds that no further action is required for the Non-automation 3-Digit Non-machinable Letters and Non-automation 5-Digit Non-machinable Letters discounts.*

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<sup>44</sup> Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 3, January 28, 2019, question 7 (January 28 Responses to CHIR No. 3).

<sup>45</sup> See United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016, at 39 (FY 2016 ACR).

### (3) DNDC and DSCF Dropship Letters

In FY 2018, the passthroughs for DNDC dropship Letters and DSCF dropship Letters were 126.3 percent and 134.8 percent, respectively, down from 152.9 and 161.9 percent, respectively, in FY 2017. FY 2018 ACR at 19. The Postal Service justifies these excessive discounts pursuant to 39 U.S.C. § 3622(e)(2)(B), on the grounds that they are necessary to mitigate rate shock. *Id.* In Docket No. R2019-1, the Postal Service reduced both of these passthroughs by at least 10 percentage points.<sup>46</sup> The Postal Service states that it intends to reduce these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment. FY 2018 ACR at 19.

The Public Representative agrees that these excessive passthroughs are justified under 39 U.S.C. § 3622(e)(2)(B). PR Comments at 60. She states that the Postal Service has followed through with its plan to reduce these passthroughs by at least 10 percentage points in each Market Dominant rate case. *Id.* at 59-60.

NAPM and Idealliance ask the Commission to consider whether further reductions in passthroughs for DNDC and DSCF dropship Letters might “have unintended adverse effects on the Postal Service’s operational efficiency.” NAPM/Idealliance Comments at 5-6.

The Postal Service replies that its approach to reducing passthroughs over time is consistent with the direction that has been provided by the Commission. Postal Service Reply Comments at 5. The Postal Service asserts that it “recognizes that a balance must be struck between encouraging efficient entry of Marketing Mail volume by mailers, exercising the Postal Service’s pricing flexibility subject to price cap limitations at the class level, and maintaining compliance with the Commission’s interpretation of the worksharing requirements of Section 3622(e).” *Id.*

*The Commission concludes that a substantial one-time reduction in the DNDC and DSCF dropship Letters passthrough percentages would likely adversely affect users, and that the Postal Service took adequate steps in Docket No. R2019-1 to continue to phase out these excessive passthroughs. Thus, the Commission finds that these discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2018. The Commission expects the Postal Service to align these discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.*

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<sup>46</sup> Docket No. R2019-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 13, 2018, at 33 (Order No. 4875).

b. USPS Marketing Mail Flats

Two workshare discounts for USPS Marketing Mail Flats exceeded avoided cost in FY 2018:

- Automation Mixed ADC Flats
- Automation 3-Digit Flats

All remaining discounts offered for USPS Marketing Mail Flats were less than or equal to avoided costs, and thus were consistent with 39 U.S.C. § 3622(e). Table II-6 shows the discounts for the USPS Marketing Mail Flats product for FY 2018.

**Table II-6**  
**USPS Marketing Mail Flats (Commercial and Nonprofit)<sup>47</sup>**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)  | FY 2018                         |                                   |             |
|---|---------------------------------|-----------------------------------|-------------|
|   | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>USPS Marketing Mail Automation Flats: Barcoding (Cents/Piece)</b>      |                                 |                                   |             |
| Automation Mixed ADC Flats (Non-automation Mixed ADC Flats)               | 3.6                             | 1.9                               | 189.5%      |
| <b>USPS Marketing Mail Automation Flats: Presorting (Cents/Piece)</b>     |                                 |                                   |             |
| Automation ADC Flats (Automation Mixed ADC Flats)                         | 3.1                             | 6.0                               | 51.7%       |
| Automation 3-Digit Flats (Automation ADC Flats)                           | 6.7                             | 6.5                               | 103.1%      |
| Automation 5-Digit Flats (Automation 3-Digit Flats)                       | 10.7                            | 12.9                              | 82.9%       |
| <b>USPS Marketing Mail Non-automation Flats: Presorting (Cents/Piece)</b> |                                 |                                   |             |
| Non-automation ADC Flats (Non-automation Mixed ADC Flats)                 | 3.2                             | 4.1                               | 78.0%       |
| Non-automation 3-Digit Flats (Non-automation ADC Flats)                   | 5.2                             | 5.6                               | 92.9%       |
| Non-automation 5-Digit Flats (Non-automation 3-Digit Flats)               | 8.4                             | 9.7                               | 86.6%       |
| <b>USPS Marketing Mail Flats: Dropship<sup>48</sup> (Cents/Pound)</b>     |                                 |                                   |             |
| DNDC Flats (Origin Flats)   | 20.5                            | 35.7                              | 57.4%       |
| DSCF Flats (Origin Flats)   | 26.1                            | 38.6                              | 67.5%       |

Source: PRC-LR-ACR2018/4.

<sup>47</sup> Table II-6 does not list commercial and nonprofit discounts separately because in FY 2018 all commercial and nonprofit USPS Marketing Mail Flats discounts were set equal.

<sup>48</sup> Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discount divided by total pounds. See Docket No. RM2017-11, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), November 20, 2017 (Order No. 4227).

(1) Automation Mixed ADC Flats

The passthrough for Automation Mixed ADC Flats was 189.5 percent in FY 2018, down from 190.0 percent in FY 2017. FY 2018 ACR at 21-22. The Postal Service justifies this excessive passthrough pursuant to 39 U.S.C. § 3622(e)(2)(D), on the grounds that it encourages mailers to place IMbs on mailpieces, which improves operational efficiency. *Id.* In Docket No. R2019-1, the Postal Service aligned this discount with its FY 2017 avoided cost.<sup>49</sup> However, avoided costs increased 0.1 cents in FY 2018.<sup>50</sup> Using the discount from Docket No. R2019-1, the passthrough drops significantly—down to 105.3 percent. FY 2018 ACR at 21-22. The Postal Service elaborates that Full-Service IMbs allow for data collection which provides insight into mail processing operations and can be used to improve mailers' preparation processes. *See* January 28 Responses to CHIR No. 3, question 8.a. (citing question 7a.-b.). The Postal Service asserts that these benefits are difficult to capture in the cost avoidance models. *Id.* The Postal Service expresses its intent to align this discount with its avoided cost in the next Market Dominant price adjustment. *Id.* question 8.d.

The Public Representative asserts that once the new rates approved in Docket No. R2019-1 take effect, this passthrough will fall to 105.3 percent. PR Comments at 60. She concludes that “[because] the Postal Service will most likely file the next [M]arket [D]ominant rate case with existing avoided costs, . . . the Postal Service should be able to eliminate the excessive passthrough for this product in FY 2019.” *Id.* Therefore, she states that this passthrough is adequately justified under 39 U.S.C. § 3622(e)(2)(D). *Id.*

*The Commission finds that the Automation Mixed ADC Flats discount was adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2018. Consistent with its plan, the Postal Service must either align the discount with its avoided costs in the next Market Dominant rate adjustment, or provide support for an applicable statutory exception.*

(2) Automation 3-Digit Flats

The passthrough for Automation 3-Digit Flats was 103.1 percent in FY 2018, up from 72.4 percent in FY 2017. FY 2018 ACR at 21. The Postal Service explains that a decrease in this rate category's unit cost avoidance led to this passthrough exceeding 100 percent in FY 2018. *Id.* When prices from Docket No. R2019-1 take effect, this passthrough will increase to 113.8 percent. *Id.* The Postal Service intends to realign this discount with its avoided cost in the next Market Dominant price adjustment, or else cite an appropriate statutory exception. *Id.*

The Public Representative asserts that the Postal Service does not cite any statutory exception for this excessive passthrough, and that it was therefore out of compliance for FY 2018. PR Comments at 65.

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<sup>49</sup> See Docket No. R2019-1, United States Postal Service Notice of Market-Dominant Price Change, October 10, 2018, at 16-18.

<sup>50</sup> See Library Reference USPS–FY18–3, December 28, 2018, Excel file “FY18.3 Worksharing Tables.xlsx.”

*The Commission finds that the Automation 3-Digit Flats discount was not in compliance during FY 2018. The Postal Service must either align this discount with its avoided cost in the next Market Dominant price adjustment, or provide support for an applicable statutory exception.*

c.      Parcels

Three workshare discounts for Parcels exceeded avoided costs in FY 2018:

- Mixed NDC Machinable Barcoded Parcels
- Mixed NDC Irregular Barcoded Parcels
- Mixed NDC Barcoded Marketing Parcels

These discounts are discussed together below. All remaining discounts offered for Parcels were less than avoided costs, and thus were consistent with 39 U.S.C. § 3622(e). Table II-7 and Table II-8 show the discounts for the Parcels product for FY 2018.



**Table II-7**  
**USPS Marketing Mail Parcels (Commercial and Nonprofit)**  
**Presort and Barcode Workshare Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)   | FY 2018                         |                                   |             |
|--|---------------------------------|-----------------------------------|-------------|
|  | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>Nonprofit USPS Marketing Mail Parcels: Presorting (Cents/Piece)</b>               |                                 |                                   |             |
| NDC Machinable Parcels (Mixed NDC Machinable Parcels)                                | 39.6                            | 55.8                              | 71.0%       |
| 5-Digit Machinable Parcels (NDC Machinable Parcels)                                  | 28.6                            | 82.3                              | 34.8%       |
| NDC Irregular Parcels (Mixed NDC Irregular Parcels)                                  | 25.0                            | 30.0                              | 83.3%       |
| SCF Irregular Parcels (NDC Irregular Parcels)  | 38.1                            | 66.1                              | 57.6%       |
| 5-Digit Irregular Parcels (SCF Irregular Parcels)                                    | 16.2                            | 91.0                              | 17.8%       |
| <b>Nonprofit USPS Marketing Mail Parcels: Barcoding (Cents/Piece)<sup>51</sup></b>   |                                 |                                   |             |
| Mixed NDC Machinable Barcoded Parcels<br>(Mixed NDC Machinable Non-barcoded Parcels) | 5.8                             | 4.1                               | 141.5%      |
| Mixed NDC Irregular Barcoded Parcels<br>(Mixed NDC Irregular Non-barcoded Parcels)   | 5.8                             | 4.1                               | 141.5%      |
| <b>USPS Marketing Mail Parcels: Presorting (Cents/Piece)</b>                         |                                 |                                   |             |
| NDC Marketing Parcels (Mixed NDC Marketing Parcels)                                  | 33.4                            | 43.0                              | 77.7%       |
| SCF Marketing Parcels (NDC Marketing Parcels)  | 31.4                            | 39.6                              | 79.3%       |
| 5-Digit Marketing Parcels (SCF Marketing Parcels)                                    | 9.3                             | 87.3                              | 10.7%       |
| <b>USPS Marketing Mail Parcels: Barcoding (Cents/Piece)</b>                          |                                 |                                   |             |
| Mixed NDC Barcoded Marketing Parcels<br>(Mixed NDC Non-barcoded Marketing Parcels)   | 5.8                             | 4.1                               | 141.5%      |

Source: PRC-LR-ACR2018/4.

<sup>51</sup> The Postal Service charges a surcharge for non-barcoded pieces.

**Table II-8**  
**USPS Marketing Mail Parcels (Commercial and Nonprofit)**  
**Dropship Workshare Discounts and Benchmarks<sup>52</sup>**

| Type of Worksharing<br>(Benchmark)  | FY 2018                         |                                   |             |
|---|---------------------------------|-----------------------------------|-------------|
|   | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>Nonprofit USPS Marketing Mail Machinable Parcels: Dropship (Cents/Pound)</b> |                                 |                                   |             |
| DNDC Machinable Parcels (Origin Machinable Parcels)                             | 24.5                            | 52.8                              | 46.4%       |
| DSCF Machinable Parcels (Origin Machinable Parcels)                             | 52.6                            | 75.6                              | 69.5%       |
| DDU Machinable Parcels (Origin Machinable Parcels)                              | 70.5                            | 101.7                             | 69.4%       |
| <b>USPS Marketing Mail Marketing Parcels: Dropship (Cents/Pound)</b>            |                                 |                                   |             |
| DNDC Marketing Parcels (Origin Marketing Parcels)                               | 25.7                            | 52.8                              | 48.7%       |
| DSCF Marketing Parcels (Origin Marketing Parcels)                               | 52.2                            | 75.6                              | 69.1%       |
| DDU Marketing Parcels (Origin Marketing Parcels)                                | 74.1                            | 101.7                             | 72.9%       |
| <b>Nonprofit USPS Marketing Mail Irregular Parcels: Dropship (Cents/Pound)</b>  |                                 |                                   |             |
| DNDC Irregular Parcels (Origin Irregular Parcels)                               | 24.5                            | 52.8                              | 46.4%       |
| DSCF Irregular Parcels (Origin Irregular Parcels)                               | 52.6                            | 75.6                              | 69.5%       |
| DDU Irregular Parcels (Origin Irregular Parcels)                                | 70.5                            | 101.7                             | 69.4%       |

Source: PRC–LR–ACR2018/4.

*Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels.* Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels each had a passthrough of 141.5 percent in FY 2018. FY 2018 ACR at 22. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(D), on the grounds that they encourage mailers to pre-barcode parcels, thereby increasing operational efficiency. *Id.* In Docket No. R2019-1, the Postal Service reduced each of these passthroughs by at least 10 percentage points. Order No. 4875 at 33-34. The Postal Service states that it intends to reduce these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment. FY 2018 ACR at 22-23.

The Public Representative notes that while the Commission has previously accepted the Postal Service's justification for these excessive passthroughs based on the Postal Service's commitment to decrease them by at least 10 percentage points in each Market Dominant price adjustment, under the discounts and rates approved in Docket No. R2019-1 and the

<sup>52</sup> Passthroughs for discounts in this table use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

unit avoided cost estimates from FY 2018, these passthroughs will only be reduced by 9.8 percentage points. PR Comments at 61. In light of the Postal Service's expressed intent to lower these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment, she expresses the view that "it is reasonable to expect the Postal Service to modify discounts in the next [M]arket [D]ominant rate case to reduce these three passthroughs by the anticipated amount." *Id.* Therefore, she states that these three passthroughs have been adequately justified in FY 2018 pursuant to 39 U.S.C. § 3622(e)(2)(D). *Id.*

*The Commission finds that the Mixed NDC Machinable Barcoded Parcels, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(D) in FY 2018. The Commission expects the Postal Service to follow its plan to reduce these passthroughs by at least 10 percentage points in future Market Dominant price adjustments.*

d. Carrier Route

Two workshare discounts for Carrier Route Letters exceeded avoided costs in FY 2018:

- DNDC dropship Letters
- DSCF dropship Letters

These discounts are discussed together below. All remaining discounts offered for Carrier Route were less than avoided costs, and thus were consistent with 39 U.S.C. § 3622(e). Table II-9 shows the discounts for the Carrier Route product for FY 2018.

**Table II-9**  
**USPS Marketing Mail Carrier Route (Commercial and Nonprofit)<sup>53</sup>**  
**Dropship and Presort Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)  | FY 2018                         |                                   |             |
|---|---------------------------------|-----------------------------------|-------------|
|   | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>USPS Marketing Mail Carrier Route Letters: Dropship (cents/piece)</b>            |                                 |                                   |             |
| DNDC Letters (Origin Letters)   | 2.7                             | 1.9                               | 142.1%      |
| DSCF Letters (Origin Letters)   | 3.5                             | 2.3                               | 152.2%      |
| <b>USPS Marketing Mail Carrier Route Flats: Dropship (cents/pound)<sup>54</sup></b> |                                 |                                   |             |
| DNDC Flats (Origin Flats)   | 15.2                            | 35.7                              | 42.5%       |
| DSCF Flats (Origin Flats)   | 20.0                            | 38.6                              | 51.8%       |
| DDU Flats (Origin Flats)  | 36.6                            | 43.7                              | 83.8%       |
| <b>USPS Marketing Mail Carrier Route Flats: Presorting (cents/piece)</b>            |                                 |                                   |             |
| Origin Flats on 5-Digit Pallets (Other Origin Flats)                                | 1.9                             | 1.9                               | 100%        |
| DNDC Flats on 5-Digit Pallets (Other DNDC Flats)                                    | 1.9                             | 1.9                               | 100%        |
| DSCF Flats on 5-Digit Pallets (Other DSCF Flats)                                    | 1.9                             | 1.9                               | 100%        |
| DDU Flats on 5-Digit Pallets (Other DDU Flats)                                      | 1.9                             | 1.9                               | 100%        |
| <b>USPS Marketing Mail Carrier Route Flats: Dropship (cents/pound)<sup>55</sup></b> |                                 |                                   |             |
| DNDC Flats on 5-Digit Pallets (Origin Flats)  | 14.3                            | 35.7                              | 40.0%       |
| DSCF Flats on 5-Digit Pallets (Origin Flats)  | 17.8                            | 38.6                              | 46.1%       |
| DDU Flats on 5-Digit Pallets (Origin Flats)   | 22.3                            | 43.7                              | 51.1%       |

Source: PRC–LR–ACR2018/4.

*Carrier Route Dropship DNDC and DSCF Letters.* In FY 2018, passthroughs for Carrier Route Dropship DNDC and DSCF dropship Letters were 142.1 percent and 152.2 percent, respectively. FY 2018 ACR at 23. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B), on the grounds that they are necessary to mitigate rate shock. *Id.* In Docket No. R2019-1, the Postal Service reduced these passthroughs by at least 10 percentage points. Order No. 4875 at 34. The Postal Service states that it intends to reduce these passthroughs by at least 10 percentage points in the next Market Dominant price adjustment. FY 2018 ACR at 23.

<sup>53</sup> Table II-9 does not list commercial and nonprofit discounts separately because in FY 2018 all commercial and nonprofit discounts for USPS Marketing Mail Carrier Route were set equal.

<sup>54</sup> Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

<sup>55</sup> Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

The Public Representative notes that in FY 2018 the Carrier Route DNDC dropship Letters passthrough decreased by 34.4 percentage points compared to the year before, and the DSCF dropship Letters discount decreased by 28.8 percentage points. PR Comments at 62. She also notes the Postal Service's representation that these passthroughs will decrease even further once the new discounts and rates approved in Docket No. R2019-1 take effect. *Id.* Therefore, she states that these passthroughs were adequately justified for FY 2018 pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.*

*The Commission finds that a substantial one-time reduction in these passthroughs would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2019-1 to phase out these excessive passthroughs. Thus, the Commission finds that the Carrier Route DNDC and DSCF dropship Letters discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2018. The Commission expects the Postal Service to align discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.*

e. High Density and Saturation Letters

Two workshare discounts for High Density and Saturation Letters exceeded avoided costs in FY 2018:

- DNDC dropship Letters
- DSCF dropship Letters

These discounts are discussed together below. All remaining discounts offered for High Density and Saturation Letters were less than avoided costs, and thus were consistent with 39 U.S.C. § 3622(e). Table II-10 shows the discounts for the High Density and Saturation Letters product for FY 2018.

**Table II-10**  
**USPS Marketing Mail High Density and Saturation Letters (Commercial and Nonprofit)<sup>56</sup>**  
**Dropship and Presort Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)                                      | FY 2018                         |                                   |             |
|---|---------------------------------|-----------------------------------|-------------|
|   | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>USPS Marketing Mail High Density Letters: Presort (cents/piece)</b>  |                                 |                                   |             |
| High Density Letters (Carrier Route)                                    | 9.2                             | 28.2                              | 32.6%       |
| <b>USPS Marketing Mail High Density Letters: Dropship (cents/piece)</b> |                                 |                                   |             |
| DNDC Letters (Origin Letters)   | 2.2                             | 1.9                               | 115.8%      |
| DSCF Letters (Origin Letters)   | 2.8                             | 2.3                               | 121.7%      |

Source: PRC–LR–ACR2018/4.

In FY 2018, passthroughs for DNDC dropship Letters and DSCF dropship Letters were 115.8 percent and 121.7 percent, respectively. FY 2018 ACR at 23-24. The Postal Service justifies these excessive passthroughs pursuant to 39 U.S.C. § 3622(e)(2)(B), on the grounds that they are necessary to mitigate rate shock. *Id.* at 24. In Docket No. R2019-1, the Postal Service reduced these passthroughs by at least 10 percentage points. Order No. 4875 at 35. Using rates from Docket No. R2019-1, passthroughs for DNDC dropship Letters and DSCF dropship Letters will be 105.3 percent and 108.7 percent, respectively. FY 2018 ACR at 24. The Postal Service states that it intends to align these discounts with their avoided costs in the next Market Dominant price adjustment. *Id.* Once these discounts are aligned with their avoided costs, the Postal Service will have completed its multi-year plan with regard to these discounts.<sup>57</sup>

The Public Representative notes that in FY 2018 the High Density and Saturation DNDC dropship Letters discount decreased by 25.4 percentage points compared to the year before, and the High Density and Saturation DSCF dropship Letters discount decreased by 25.9 percentage points. PR Comments at 62. She also notes the Postal Service’s representation that these discounts will decrease even further once the new discounts and rates approved in Docket No. R2019-1 take effect. *Id.* Therefore, she states that these passthroughs were adequately justified for FY 2018 pursuant to 39 U.S.C. § 3622(e)(2)(B). *Id.* at 62-63.

<sup>56</sup> Table II-10 does not list commercial and nonprofit discounts separately because in FY 2018 all commercial and nonprofit discounts for USPS Marketing Mail High Density and Saturation Letters were set equal.

<sup>57</sup> See FY 2016 ACD at 35 (“The Postal Service . . . commits to reducing these passthroughs by 10 percentage points in each subsequent Market Dominant price adjustment until each reaches 100 percent.”).

*The Commission finds that a substantial one-time reduction in these passthroughs would likely adversely affect users and that the Postal Service took adequate steps in Docket No. R2019-1 to phase out these excessive passthroughs. Thus, the Commission finds that the High Density and Saturation DNDC and DSCF dropship Letters discounts were adequately justified pursuant to 39 U.S.C. § 3622(e)(2)(B) in FY 2018. The Commission expects the Postal Service to align discounts with avoided costs consistent with its plan. If the Postal Service deviates from its plan, it must provide a detailed analysis and explanation in support of that deviation.*

f. High Density and Saturation Flats

Table II-11 shows the discounts for the High Density, High Density Plus, and Saturation Flats for FY 2018. No workshare discounts in this category exceeded their avoided costs. Thus, all discounts were consistent with 39 U.S.C. § 3622(e).

*The Commission finds that these discounts were in compliance in FY 2018.*

**Table II-11**  
**USPS Marketing Mail High Density, High Density Plus, and Saturation Flats**  
**(Commercial and Nonprofit)<sup>58</sup>**  
**Dropship and Presort Discounts and Benchmarks**

| Type of Worksharing<br>(Benchmark)  | FY 2018                         |                                   |             |
|---|---------------------------------|-----------------------------------|-------------|
|   | Year-End<br>Discount<br>(Cents) | Unit Cost<br>Avoidance<br>(Cents) | Passthrough |
| <b>USPS Marketing Mail High Density Flats: Presort (cents/piece)</b>                          |                                 |                                   |             |
| High Density Flats (Carrier Route Flats)  | 4.7                             | 7.3                               | 64.4%       |
| <b>USPS Marketing Mail High Density, High Density Plus, and Saturation Flats<sup>59</sup></b> |                                 |                                   |             |
| DNDC Flats (Origin Flats)   | 28.3                            | 35.7                              | 79.2%       |
| DSCF Flats (Origin Flats)   | 37.0                            | 38.6                              | 95.9%       |
| DDU Flats (Origin Flats)  | 35.1                            | 43.7                              | 80.3%       |

Source: PRC–LR–ACR2018/4.

<sup>58</sup> Table II-11 does not list commercial and nonprofit discounts separately because in FY 2018 all commercial and nonprofit discounts for High Density, High Density Plus, and Saturation Flats were set equal.

<sup>59</sup> Passthroughs for these discounts use unit discounts and unit avoided costs. Consistent with Order No. 4227, the passthroughs are calculated using the total avoided costs divided by total pounds and the total discounts given divided by total pounds.

## 4. Package Services

No Package Services workshare discounts exceeded the avoided costs of the corresponding mailer worksharing activity in FY 2018 and, therefore, all discounts were consistent with 39 U.S.C. § 3622(e) in FY 2018. Tables II-12, II-13, and II-14 below demonstrate the compliance for this class.

*The Commission finds the discounts for Package Services were less than avoided costs and were thus consistent with 39 U.S.C. § 3622(e) in FY 2018.*

**Table II-12**  
**Media Mail/Library Mail**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing                           | FY 2018                   |                             |             |
|---|---------------------------|-----------------------------|-------------|
|   | Year-End Discount (cents) | Unit Cost Avoidance (cents) | Passthrough |
| <b>Media Mail: Presorting (Cents/Piece)</b>   |                           |                             |             |
| Basic (Single-Piece)                          | 12.0                      | 26.5                        | 45.3%       |
| 5-Digit (Basic)                               | 80.0                      | 119.6                       | 66.9%       |
| <b>Library Mail: Presorting (Cents/Piece)</b> |                           |                             |             |
| Basic (Single-Piece)                          | 12.0                      | 26.5                        | 45.3%       |
| 5-Digit (Basic)                               | 76.0                      | 119.6                       | 63.5%       |

Source: PRC-LR-ACR2018/6.



**Table II-13**  
**Bound Printed Matter Flats**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing  | FY 2018                   |                             |             |
|--|---------------------------|-----------------------------|-------------|
|  | Year-End Discount (cents) | Unit Cost Avoidance (cents) | Passthrough |
| Presorting (Cents/Piece) <sup>a</sup>  |                           |                             |             |
| Basic Flats (Single-Piece Flats)   | 58.0                      | See Note a                  | N/A         |
| Carrier Route Flats (Basic Flats)  | 14.0                      | 14.6                        | 96.1%       |
| <b>Presorting (Cents/Piece):<sup>a</sup> Basic, Carrier Route Flats (Single-Piece Flats)</b> |                           |                             |             |
| Zones 1&2  | 5.2                       | See Note a                  | N/A         |
| Zone 3   | 7.1                       | See Note a                  | N/A         |
| Zone 4   | 5.8                       | See Note a                  | N/A         |
| Zone 5   | 7.3                       | See Note a                  | N/A         |
| Zone 6   | 8.1                       | See Note a                  | N/A         |
| Zone 7   | 7.8                       | See Note a                  | N/A         |
| Zone 8   | 8.0                       | See Note a                  | N/A         |
| <b>Dropship (Cents/Piece)</b>  |                           |                             |             |
| Basic, Carrier Route DNDC Flats (Basic Origin Flats)   | 10.2                      | 11.8                        | 86.4%       |
| Basic, Carrier Route DSCF Flats (Basic Origin Flats)   | 54.8                      | 56.1                        | 97.7%       |
| Basic, Carrier Route DDU Flats (Basic Origin Flats)  | 70.5                      | 84.9                        | 83.0%       |

<sup>a</sup> The BPM cost model does not estimate cost differences between single piece and presorted BPM. Single piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between single piece and presorted BPM were based on an assumption that unit mail processing costs for single piece BPM were twice that of presorted BPM. See Docket No. R2006-1, Library Reference USPS-T-38, May 3, 2006, at 8.

Source: PRC-LR-ACR2018/6.

**Table II-14**  
**Bound Printed Matter Parcels**  
**Workshare Discounts and Benchmarks**

| Type of Worksharing  | FY 2018                   |                             |             |
|--|---------------------------|-----------------------------|-------------|
|  | Year-End Discount (cents) | Unit Cost Avoidance (cents) | Passthrough |
| <b>Presorting (Cents/Piece)<sup>a</sup></b>  |                           |                             |             |
| Basic Parcels (Single-Piece Parcels)   | 99.1                      | See Note a                  | N/A         |
| Carrier Route Parcels (Basic Parcels)  | 13.9                      | 14.6                        | 95.4%       |
| <b>Presorting (Cents/Piece):<sup>a</sup> Basic, Carrier Route Parcels (Single-Piece Parcels)</b> |                           |                             |             |
| Zones 1&2  | 6.3                       | See Note a                  | N/A         |
| Zone 3   | 6.7                       | See Note a                  | N/A         |
| Zone 4   | 5.9                       | See Note a                  | N/A         |
| Zone 5   | 5.6                       | See Note a                  | N/A         |
| Zone 6   | 7.1                       | See Note a                  | N/A         |
| Zone 7   | 4.9                       | See Note a                  | N/A         |
| Zone 8   | 4.4                       | See Note a                  | N/A         |
| <b>Dropship (Cents/Piece)</b>  |                           |                             |             |
| Basic, Carrier Route DNDC Parcels (Basic Origin Parcels)   | 10.2                      | 11.8                        | 86.4%       |
| Basic, Carrier Route DSCF Parcels (Basic Origin Parcels)   | 54.8                      | 56.1                        | 97.7%       |
| Basic, Carrier Route DDU Parcels (Basic Origin Parcels)  | 70.5                      | 84.9                        | 83.0%       |

<sup>a</sup> The BPM cost model does not estimate cost differences between single piece and presorted BPM. Single piece BPM is a residual category with low volume and adequate data are not available. Previously, rate differences between single piece and presorted BPM were based on an assumption that unit mail processing costs for single piece BPM were twice that of presorted BPM. See USPS-T-38 at 8.

Source: PRC-LR-ACR2018/6.

## D. Preferred Rate Requirements

39 U.S.C. § 3626 identifies preferred rate requirements applicable to Periodicals, USPS Marketing Mail, and Package Services prices.

Periodicals is a preferred class of mail and receives several statutory discounts in 39 U.S.C. § 3626, such as a 5-percent discount for nonprofit and classroom publications. In Docket No. R2018-1, prices for Periodicals were set to be consistent with statutory preferences for mail in that class. Order No. 4215 at 52.

39 U.S.C. § 3626(a)(6) requires nonprofit prices in USPS Marketing Mail to be set in relation to their commercial counterparts. In Docket No. R2018-1, nonprofit prices were set to yield average per-piece revenues of 60.0 percent of commercial per-piece revenues at the class level. Order No. 4215 at 44. The Commission calculates that the actual per-piece revenues from USPS Marketing Mail nonprofit pieces were 59.5 percent of the per-piece revenues of their commercial counterparts in FY 2018.<sup>60</sup> As discussed in detail in Order No. 4400, changes in the mix of mail after price changes make it difficult to precisely attain the 60 percent relationship required by law.<sup>61</sup> The Commission finds that, in FY 2018, nonprofit average revenues per piece in USPS Marketing Mail were set as nearly as practicable to 60 percent of their commercial counterparts.

One preferred rate requirement applies to Media Mail/Library Mail, a product in Package Services. Section 3626(a)(7) of Title 39 requires Library Mail prices to be set at 95 percent of Media Mail prices. Docket No. R2018-1 set these prices accordingly. Order No. 4215 at 56.

*The Commission finds that prices in FY 2018 were in compliance with all of the preferred rate requirements identified in 39 U.S.C. § 3626.*

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<sup>60</sup> See PRC–LR–ACR2018/1.

<sup>61</sup> See Docket No. RM2017-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Eight), February 7, 2018 (Order No. 4400).

# CHAPTER 3: MARKET DOMINANT PRODUCTS: OTHER RATE AND FEE COMPLIANCE ISSUES

## **A. Introduction**

Commenters raise other rate and fee compliance issues, including noncompensatory products and pricing issues related to cost coverage.

This Chapter begins with an analysis of noncompensatory products organized by class. It also includes a discussion of matters relating to NSAs, and other pricing issues.

## **B. Noncompensatory Products**

### **1. Periodicals**

#### **a. FY 2018 Financial Results**

The cost coverage for Periodicals decreased from FY 2017 to FY 2018, from 69.3 percent to 67.5 percent. As Table III-1 illustrates, Periodicals cost coverage has declined from 83.0 percent in FY 2007, resulting in a cumulative negative contribution of more than \$6.7 billion.

**Table III-1**  
**Periodicals Cost Coverage, FY 2007–FY 2018 (Volume and \$ in Millions)<sup>62</sup>**

| Fiscal Year  | Volume | Revenue | Attributable Cost | Cost Coverage | Contribution    |
|--------------|--------|---------|-------------------|---------------|-----------------|
| 2007         | 8,795  | \$2,188 | \$2,636           | 83.01%        | -\$448          |
| 2008         | 8,605  | \$2,295 | \$2,732           | 84.00%        | -\$437          |
| 2009         | 7,953  | \$2,038 | \$2,680           | 76.04%        | -\$642          |
| 2010         | 7,269  | \$1,879 | \$2,490           | 75.46%        | -\$611          |
| 2011         | 7,077  | \$1,821 | \$2,430           | 74.94%        | -\$609          |
| 2012         | 6,741  | \$1,732 | \$2,402           | 72.10%        | -\$670          |
| 2013         | 6,359  | \$1,658 | \$2,179           | 76.10%        | -\$521          |
| 2014         | 6,045  | \$1,625 | \$2,134           | 76.16%        | -\$509          |
| 2015         | 5,838  | \$1,589 | \$2,101           | 75.64%        | -\$512          |
| 2016         | 5,586  | \$1,507 | \$2,043           | 73.73%        | -\$537          |
| 2017         | 5,301  | \$1,375 | \$1,983           | 69.31%        | -\$609          |
| 2018         | 4,993  | \$1,277 | \$1,890           | 67.54%        | -\$614          |
| <b>Total</b> |        |         |                   |               | <b>-\$6,717</b> |

Source: PRC–LR–ACR2018/5.

Unit revenue for the Periodicals class as a whole decreased from 25.9 cents in FY 2017 to 25.6 cents in FY 2018. FY 2018 ACR at 37. However, unit cost increased from 37.4 cents to 37.9 cents during the same period. *Id.* at 37-38. Decreasing revenue coupled with increasing cost caused unit contribution to decline in FY 2018. Table III-2 details the unit cost, revenue, and contribution for Periodicals as a whole during the PAEA era.

<sup>62</sup> In this Report, attributable cost means incremental cost. See Order No. 3506 at 125. The attributable cost for years before FY 2016 reflect the accepted methodology for those years and has not been recalculated.

**Table III-2**  
**Periodicals Unit Cost, Revenue, and Contribution, FY 2007–FY 2018**

| Fiscal Year | Unit Attributable Cost | Unit Revenue | Unit Contribution |
|-------------|------------------------|--------------|-------------------|
| 2007        | \$0.2997               | \$0.2488     | -\$0.0509         |
| 2008        | \$0.3175               | \$0.2667     | -\$0.0508         |
| 2009        | \$0.3370               | \$0.2563     | -\$0.0807         |
| 2010        | \$0.3425               | \$0.2585     | -\$0.0841         |
| 2011        | \$0.3434               | \$0.2573     | -\$0.0860         |
| 2012        | \$0.3562               | \$0.2568     | -\$0.0994         |
| 2013        | \$0.3427               | \$0.2608     | -\$0.0819         |
| 2014        | \$0.3531               | \$0.2689     | -\$0.0842         |
| 2015        | \$0.3599               | \$0.2722     | -\$0.0877         |
| 2016        | \$0.3658               | \$0.2697     | -\$0.0961         |
| 2017        | \$0.3742               | \$0.2593     | -\$0.1148         |
| 2018        | \$0.3786               | \$0.2557     | -\$0.1229         |

Source: PRC–LR–ACR2018/5.

b. Comments

MPA and ANM contend that Periodicals’ cost coverage shortcomings stem from “the Postal Service’s continuously deteriorating efficiency in processing flats and a confounding inability (or unwillingness) to reduce flats costs despite repeated concerns raised by the Commission and affected mailers.” MPA/ANM Comments at 1. They also state that recent rate design changes have had little effect on Periodicals finances. *Id* at 6. The Postal Service replies that the rate design changes have resulted in modest improvements to Periodicals Outside County finances and the decline in cost coverage was less in FY 2018 than in previous years. Postal Service Reply Comments at 6.

c. Commission Analysis

Since FY 2007, Periodicals volume declined 43.2 percent, total revenue declined 41.6 percent, total attributable cost declined 28.3 percent, and the Periodicals class accumulated negative contribution of over \$6.7 billion.

As detailed in Table III-2, from FY 2017 to FY 2018, unit revenue decreased by 1.4 percent and unit attributable cost increased by 1.2 percent. The widening gap between unit revenue and unit attributable cost resulted in a lower unit contribution and an increasing total negative contribution for Periodicals.

Decreases in both the average weight and advertising content of Periodicals mailings also affected Periodicals revenue in FY 2018. Periodicals prices are tied, in part, to the weight of the piece, and minor weight changes have a greater effect on the price paid by the mailers than on the cost incurred by the Postal Service. As the Postal Service explains, minor weight increases do not significantly affect cost within the weight range of typical mailpieces (3 to 16 ounces) or the productivity of mail processing equipment.<sup>63</sup> However, minor weight changes can have significant effects on revenue because the weight price element accounts for roughly 21 percent of Periodicals revenue. Average weight for Outside County Periodicals decreased from 5.96 ounces per piece in FY 2017 to 5.75 ounces per piece in FY 2018.<sup>64</sup> Furthermore, advertising pounds, which pay higher prices, decreased from 37.5 percent of total Outside County Periodicals pounds in FY 2017 to 35.8 percent in FY 2018.<sup>65</sup>

In Chapter 2, *supra*, the Commission provides a discussion of Periodicals worksharing incentives and the importance of sending efficient pricing signals to mailers.

d. Commission Analysis of Outside County Periodicals Unit Cost

The Periodicals class is comprised of two products: In-County<sup>66</sup> and Outside County. In FY 2018, Outside County constituted 89.8 percent of Periodicals volume and 95.1 percent of Periodicals attributable cost.<sup>67</sup> Because Outside County pieces incur most of the costs for the Periodicals class, operational initiatives focused on Outside County Periodicals have greater potential for cost savings for the Periodicals class as a whole. Table III-3 shows that Outside County Periodicals unit attributable cost increased by 0.62 cents from FY 2017 to FY 2018.

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<sup>63</sup> See Docket No. ACR2015, *Annual Compliance Report*, December 29, 2015, at 46 (identifying the following equipment: the Automated Flats Sorting Machine 100 (AFSM 100), Flats Sequencing System (FSS), Automation Parcel and Bundle Sorter (APBS), or Automated Package Processing System (APPS)).

<sup>64</sup> See PRC–LR–ACR2018/5, Excel file “FY18 Periodicals Cost Coverage.xlsx.”

<sup>65</sup> *Id.* In FY 2008, the average weight for Outside County Periodicals was 6.99 ounces per piece and advertising pounds were 41.7 percent of total Outside County Periodicals pounds.

<sup>66</sup> The In-County product is typically used by smaller circulation weekly newspapers for distribution within the county of publication.

<sup>67</sup> See PRC–LR–ACR2018/5, Excel file “FY18 Periodicals Cost Coverage.xlsx.”

**Table III-3**  
**Change in Outside County Periodicals Unit Attributable Costs, FY 2008–FY 2018<sup>68</sup> (Cents)**

| <b>Fiscal Year</b> | <b>Mail Processing</b> | <b>Delivery</b> | <b>Transportation</b> | <b>Other</b> | <b>Total</b> |
|--------------------|------------------------|-----------------|-----------------------|--------------|--------------|
| 2008               | 12.23                  | 8.06            | 3.52                  | 10.12        | 33.93        |
| 2009               | 12.94                  | 9.29            | 3.18                  | 10.89        | 36.30        |
| 2010               | 12.02                  | 9.68            | 3.59                  | 11.09        | 36.38        |
| 2011               | 12.07                  | 9.50            | 3.41                  | 11.51        | 36.49        |
| 2012               | 12.41                  | 9.57            | 3.90                  | 11.87        | 37.74        |
| 2013               | 11.69                  | 9.38            | 3.89                  | 11.39        | 36.35        |
| 2014               | 12.25                  | 9.63            | 3.83                  | 11.82        | 37.53        |
| 2015               | 11.89                  | 10.29           | 4.31                  | 11.72        | 38.21        |
| 2016               | 12.08                  | 10.44           | 4.68                  | 11.52        | 38.71        |
| 2017               | 12.72                  | 10.93           | 3.60                  | 12.42        | 39.67        |
| 2018               | 12.55                  | 11.22           | 4.13                  | 12.40        | 40.29        |

Source: PRC–LR–ACR2018/5.

In FY 2018, the unit attributable costs for delivery and transportation increased, and mail processing and other unit attributable costs decreased.

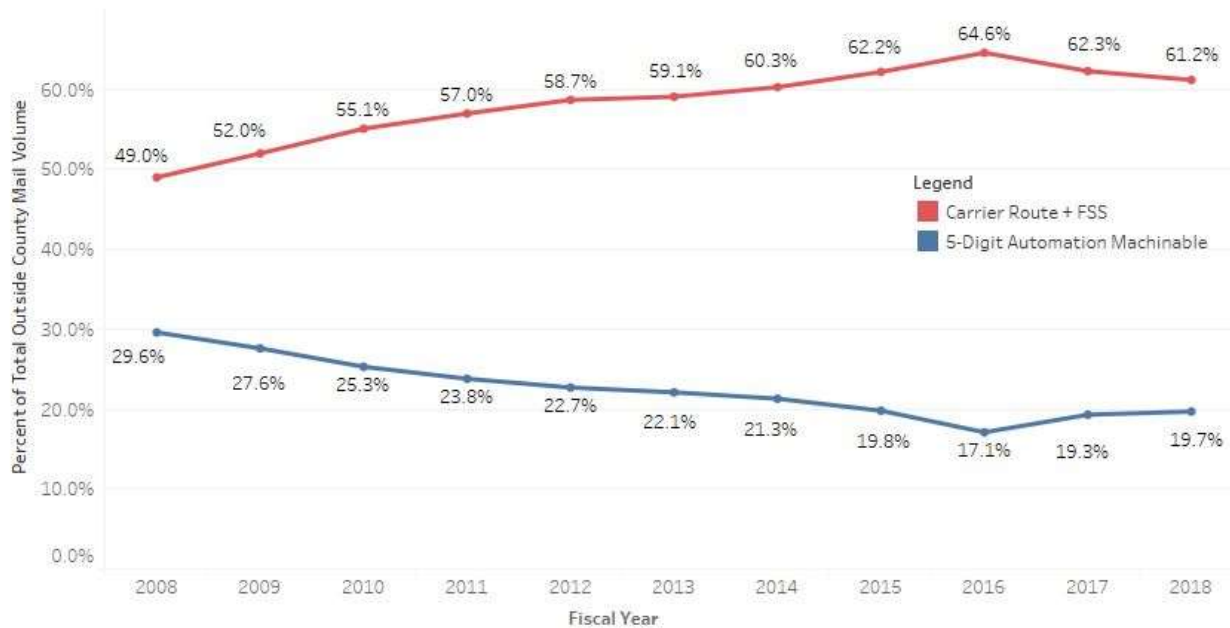
Over the 10-year period beginning in FY 2008, mailer presortation of Outside County Periodicals has increased substantially. As Figure III-1 illustrates, 49.0 percent of mail volume was presorted to the Carrier Route level in FY 2008, whereas 61.2 percent of mail volume was presorted to the Carrier Route in FY 2018.

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<sup>68</sup> The figures in this table do not include piggybacks. A majority of the other costs are piggybacked onto mail processing, delivery, and transportation.



**Figure III-1**  
**Change in Outside County Periodicals Mail Mix, FY 2008–FY 2018<sup>69</sup>**



Source: PRC–LR–ACR2018/5.

Mail processing unit costs are much lower for mailpieces presorted to the Carrier Route level than to the 5-Digit level. The Postal Service’s CRA does not report mail processing costs for Carrier Route presorted Periodicals separately from other presorted Periodicals, such as 5-Digit and 3-Digit, because they are not separate products. However, granular data from the Periodicals Pricing Report provide insight into the cost differentials for Carrier Route, 5-Digit, and 3-Digit.<sup>70</sup>

The data from the Periodicals Pricing Report show that the mail processing and delivery costs for Carrier Route pieces are significantly lower than the mail processing and delivery costs for 5-Digit pieces. The mail processing cost for pieces processed on the FSS is higher than the mail processing cost for both 5-Digit and Carrier Route pieces. *Id.* The delivery cost for pieces processed on the FSS is lower than the delivery cost for 5-Digit pieces. *Id.* The total cost (mail processing plus delivery) for pieces processed on the FSS is lower than the total cost for 5-Digit, but significantly higher than the cost for Carrier Route pieces.

<sup>69</sup> With the implementation of Docket No. R2015-4 prices, some mailpieces that were previously Carrier Route were required to be prepared at the FSS level between FY 2015 and FY 2017. Hence, the Carrier Route and FSS pieces are aggregated to demonstrate the degree to which mailers prepared Outside County Periodicals mailings in FY 2017. See section III.B.2., *infra*.

<sup>70</sup> See USPS–FY18–44, Excel file “ACD.Periodicals.Report Attach FY18.xlsx.”

Since FY 2008, mail processing unit costs for flat-shaped mail have increased.<sup>71</sup> Declining mail processing productivity contributed to this increase. Table III-4 details changes in productivity for selected flats processing operations since FY 2008.

**Table III-4**  
**Change in Productivity for Selected Flats Processing Operations, FY 2008–FY 2018**

| Operation  | Productivity Change |
|--|---------------------|
| Automated Flats Sorting Machine 100 (AFSM 100) Incoming Secondary                | -33%                |
| Small Parcel Bundle Sorter (SPBS)/Automated Parcel Bundle Sorter (APBS) Incoming | -17%                |
| Automated Package Processing System (APPS) Incoming                              | -49%                |
| Flats Sequencing System (FSS) <sup>72</sup>                                      | -9%                 |

Source: PRC–LR–ACR2018/5.

In FY 2010 and FY 2011, the Postal Service projected improved flats mail processing performance;<sup>73</sup> however, the Postal Service has yet to achieve such productivity increases. Flats productivity has decreased since FY 2008. Although the changing Outside County Periodicals mail mix will likely result in less processing on the AFSM 100, SPBS/APBS, and APPS, Periodicals will continue to have cost coverage issues if the Postal Service does not address declining productivity.

Periodicals have consistently failed to cover costs, and the Commission has repeatedly encouraged the Postal Service to improve Periodicals cost coverage.<sup>74</sup>

*In Chapter 6, the Commission explains its continued concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flats. The Commission describes an ongoing rulemaking intended to develop metrics to measure, track, and report on initiatives related to reducing the costs of flats. All of the recommendations pertaining to reducing flats costs in Chapter 6 apply to Periodicals.*

<sup>71</sup> For example, the piggybacked mail processing unit cost for USPS Marketing Mail Flats has increased from 22.89 cents in FY 2008 to 31.06 cents in FY 2018. Compare Docket No. ACR2008, Library Reference USPS–FY08–26, December 29, 2008, Excel file “shp08prc.xls,” tab “Flats (4),” cell BP25 with Library Reference USPS–FY18–26, December 28, 2018, Excel file “shp18prc.xlsx,” tab “Costs (All Shapes) W Final RF,” cell O73.

<sup>72</sup> The FSS machine productivity is measured from its introduction in FY 2011.

<sup>73</sup> See, e.g., Docket No. N2012-1, Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS–T–4), December 5, 2011, at 29-30 (projecting an increase in AFSM 100 productivity of 15 percent); Docket No. R2010-4, Responses of the United States Postal Service to Questions from the Bench at the Hearing for Mr. Neri, August 19, 2010, at 7 (“Expectations are for flats workhours to decline another 11 percent in FY 2010.”); United States Postal Service Office of the Inspector General Report, Flats Sequencing System: Program Status and Projected Cash Flow, July 27, 2010, at 10 (Report Number DA-AR-10-007) (projecting that the lower bound or worst case scenario for the FSS would be a return on investment of 14.25 percent without transitional employees and 26.9 percent with transitional employees).

<sup>74</sup> See FY 2009 ACD at 75; FY 2010 ACD at 94; FY 2011 ACD at 105-106; FY 2012 ACD at 95-97; FY 2013 ACD at 44-45; FY 2014 ACD at 40-41; FY 2015 ACD at 50-51; FY 2016 ACD at 47-48; FY 2017 ACD at 50.

## 2. USPS Marketing Mail Flats

### a. Introduction

In FY 2018, USPS Marketing Mail Flats experienced the worst performance in both cost coverage and contribution since it was established as a product in FY 2007. USPS Marketing Mail Flats has never covered its costs, which led the Commission to issue one directive to improve the product's cost coverage, and another directive to measure, track, and report on costs for all flat-shaped mail products, including USPS Marketing Mail Flats.<sup>75</sup> Despite the Commission's efforts, however, cost coverage and unit contribution for USPS Marketing Mail Flats have continued to decline.

The Postal Service has failed to meet the Commission's directives to improve USPS Marketing Mail Flats' cost coverage, or to provide a specific plan or method to measure, track, and report on cost issues for flat-shaped mail. The Commission has provided the Postal Service ample time to address these issues, and while the Postal Service implemented above-average price increases, unit cost increases have outpaced any unit revenue increases. The Commission now finds that it must take a more aggressive approach to mandating improvement in the cost coverage of USPS Marketing Mail Flats. As discussed in more detail in this chapter, the Commission directs the Postal Service to increase USPS Marketing Mail Flats' prices in the next Market Dominant price adjustment by at least two percentage points above the average price increase for the USPS Marketing Mail class. However, the Commission's new pricing directive alone will not remedy the cost coverage of USPS Marketing Mail Flats. The Postal Service still must aggressively reduce USPS Marketing Mail Flats' costs.

### b. Background—FY 2010 and FY 2015 Directives

In the FY 2010 ACD, the Commission determined that the prices in effect for USPS Marketing Mail Flats in FY 2010 did not comply with 39 U.S.C. § 101(d), which requires the costs of postal operations to be apportioned to postal users on a fair and equitable basis. FY 2010 ACD at 106. The Commission directed the Postal Service to increase this product's cost coverage through a combination of above-average price adjustments (consistent with price cap requirements) and cost reductions, until such time that revenue exceeded attributable cost. *Id.* In addition, the Commission directed the Postal Service to provide the following information in each subsequent ACR:

- A description of operational changes designed to reduce flats' costs in the previous fiscal year and an estimation of the financial effect of such changes
- A description of all costing methodology or measurement improvements made in the previous fiscal year and the estimated financial effects of such changes

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<sup>75</sup> See FY 2010 ACD at 105-07; FY 2015 ACD at 64, 160-182.

- A statement summarizing the historical and current fiscal year subsidy for the Flats product, and the estimated timeline for phasing out this subsidy.

*Id.* at 107.

The Postal Service appealed the Commission's FY 2010 ACD findings and directive.<sup>76</sup> The court rejected the Postal Service's contention that the Commission acted outside the scope of its statutory authority by considering the general standards of 39 U.S.C. § 101(d) in an ACD, "at least in extreme circumstances." *Id.* at 1108. The court remanded the case to the Commission "for a definition of the circumstances that trigger [section] 101(d)'s failsafe protection, and for an explanation of why the particular remedy imposed [was] appropriate to ameliorate that extremity . . ." *Id.* at 1109. In response, the Commission issued Order No. 1427, clarifying that its analysis of the circumstances that trigger 39 U.S.C. § 101(d) depend on the totality of circumstances.<sup>77</sup>

In its FY 2012, FY 2013, and FY 2014 ACDs, the Commission found that the Postal Service made progress towards addressing the issues raised in the FY 2010 ACD, and concluded that no additional remedial actions beyond those prescribed in the FY 2010 directive were required.<sup>78</sup>

In FY 2015, the Commission found that sufficient progress was no longer being made, and required that the Postal Service develop a plan to measure, track, and report on cost and service issues related to flat-shaped products. FY 2015 ACD at 181. The response to the FY 2015 directive is discussed in more detail in Chapter 6 of this Report. In FY 2016 and FY 2017, the Commission found that no progress had been made toward addressing the FY 2010 ACD directive.<sup>79</sup>

#### c. Postal Service FY 2018 Results

In FY 2018, USPS Marketing Mail Flats had a cost coverage of 68.7 percent.<sup>80</sup> As shown in Table III-5, cost coverage for USPS Marketing Mail Flats has steadily declined since FY 2013, when the cost coverage was 85.1 percent. In FY 2018, USPS Marketing Mail Flats had the lowest reported cost coverage ever. Volume decreased 18 percent between FY 2017 and FY 2018, but the total contribution for USPS Marketing Mail Flats in FY 2018 was nevertheless \$82.6 million worse than in FY 2017, reaching an all-time low of \$751.5 million.

<sup>76</sup> See *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105 (D.C. Cir. 2012).

<sup>77</sup> See Docket No. ACR2010-R, Order on Remand, August 9, 2012, at 4 (Order No. 1427).

<sup>78</sup> See FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 47.

<sup>79</sup> FY 2016 ACD at 57; FY 2017 ACD at 59.

<sup>80</sup> The Commission's cost coverage calculation differs from the Postal Service's calculation (68.6 percent) because, unlike the Postal Service, the Commission includes fees in the revenue for each product. See PRC-LR-ACR2018/1.

**Table III-5**  
**USPS Marketing Mail Flats Cost Coverage and Contribution, FY 2008–FY 2018**

| Fiscal Year | Cost Coverage | Contribution (millions) |
|-------------|---------------|-------------------------|
| FY 2008     | 94.4%         | -\$217.8                |
| FY 2009     | 82.1%         | -\$615.6                |
| FY 2010     | 81.8%         | -\$577.0                |
| FY 2011     | 79.5%         | -\$643.2                |
| FY 2012     | 80.9%         | -\$527.9                |
| FY 2013     | 85.1%         | -\$375.9                |
| FY 2014     | 83.2%         | -\$411.0                |
| FY 2015     | 80.3%         | -\$520.0                |
| FY 2016     | 79.4%         | -\$618.1                |
| FY 2017     | 74.0%         | -\$668.9                |
| FY 2018     | 68.7%         | -\$751.5                |
| Total       |               | -\$5,927.0              |

Source: PRC–LR–ACR2018/4.

The Postal Service ascribes the decrease in cost coverage to an increase in unit attributable cost of almost 13.4 percent since FY 2017, which overshadowed a 5.3 percent increase in unit revenue. FY 2018 ACR at 17. The Postal Service states that “[t]he year-over-year change in USPS Marketing Mail Flats costs continues to be affected by classification changes from the January 2017 implementation of Docket No. R2017-1 rates.” January 28 Responses to CHIR No. 3, question 5. Specifically, the Postal Service notes that during Quarter 1 and part of Quarter 2 (specifically, the month of January 2017), data were under the old classification. *Id.* In addition, the Postal Service explains that the increase in unit attributable cost is “likely due in part to” the movement of volume from USPS Marketing Mail Flats to High Density Flats because of co-mailing.<sup>81</sup> To support this claim of a change in mail mix driving changes in costs, the Postal Service points out that the High Density Flats product saw a 20 percent increase in volume from FY 2017 to FY 2018, while overall USPS Marketing Mail Flats’ volume declined. *Id.* at 17-18. The Postal Service does not provide any information or insight into the root causes of the increases in unit attributable cost. Instead, the Postal Service discusses the long-term trend toward more workshared mail within the product, and the potential migration of flat-shaped mail within the class. *Id.* at 18.

In addition, the Postal Service discusses the impact resulting from the introduction of FSS prices to the USPS Marketing Mail Flats product in FY 2016, and the subsequent removal of FSS prices from USPS Marketing Mail Flats in FY 2017. FY 2018 ACR at 33-35. While the migrations of mail volumes that resulted from the introduction, followed by the removal of

<sup>81</sup> FY 2018 ACR at 17. Co-mailing is the process of combining and sorting multiple mailpieces from different titles into a single mailing to receive larger discounts.

FSS prices, do not directly affect FY 2018 data, the Postal Service discusses the fact that it resulted in relatively low cost Carrier Route pieces migrating, first into, and then out of, the USPS Marketing Mail Flats product. *Id.* at 33-34. The Postal Service asserts that this resulted in lower unit attributable costs for the USPS Marketing Mail Flats product in FY 2016 and FY 2017. *Id.* at 34-35. The Postal Service explains that the FY 2017 unit cost estimate contains one fiscal quarter of data during which FSS prices were still in effect, which may be “responsible for some portion of the observed unit cost increase for [USPS Marketing Mail] Flats in FY 2018.” *Id.* at 35.

Finally, the Postal Service discusses generally other purported contributing drivers to unit cost increases, including: (1) the impact of hourly labor costs on mail processing and city delivery costs; (2) the impact of an increase in accrued costs for surface transportation on unit transportation costs; (3) persistently declining volumes for USPS Marketing Mail Flats; (4) declining volume processed on the FSS; and (5) the shift in volume to city routes, which are more expensive, from rural routes, which are less expensive. January 28 Responses to CHIR No. 3, question 5; Responses to CHIR No. 6, questions 6-7.

d. Postal Service’s Response to FY 2010 ACD Directive

In its FY 2018 ACR, the Postal Service reports that it plans to increase prices for USPS Marketing Mail Flats by at least the Consumer Price Index – All Urban Consumers (CPI-U) multiplied by 1.05 in the next general Market Dominant price adjustment. FY 2018 ACR at 18, 25.

The Postal Service provides some of the information required by the Commission’s FY 2010 ACD directive as detailed below. Specifically, it provides a description of operational changes designed to reduce USPS Marketing Mail Flats’ costs; a description of costing methodology changes made in FY 2018 that purportedly affect USPS Marketing Mail Flats’ costs; and the historical and current fiscal year subsidy for the USPS Marketing Mail Flats product. *Id.* at 23-35; Responses to CHIR No. 14, question 1. The Postal Service was unable to provide an estimated timeline for phasing out the subsidy. January 11 Responses to CHIR No. 1, question 14.

(1) Operational Changes Designed to Reduce Flats’ Costs

The Postal Service describes five ongoing steps, or initiatives, taken during FY 2018 designed to make processing USPS Marketing Mail Flats more efficient. Those initiatives are: (1) Bundle Operation; (2) AFSM 100 Operations; (3) FSS Scorecard; (4) Service Performance Diagnostics Tool; and (5) Reduce Bundle Breakage. FY 2018 ACR at 26-32.

The Postal Service maintains that these initiatives are expected to improve efficiencies and productivities, as well as reduce overall costs for USPS Marketing Mail Flats. FY 2018 ACR at 26. However, the Postal Service is “still unable to provide an estimate of the financial impacts of these operational initiatives,” and contends that “it is quite difficult to come up with a unique set of reasonable assumptions about the future course of Flats costs.” FY 2018 ACR at 27; Responses to CHIR No. 1, question 14. The Postal Service states that because cost savings programs or initiatives generally target one or more specific activities

to produce cost savings, it cannot isolate or identify savings for particular products. FY 2018 ACR at 27.

In FY 2018, the Postal Service began providing the Commission with existing metrics that it uses to monitor and gauge the operational impact of its initiatives.<sup>82</sup> Some of these metrics showed negative results during FY 2018, while some improved. These reported results are discussed in more detail below.

For the Bundle Operation initiative, the Postal Service states that it introduced a new Enhanced Package Processing System (EPPS) in FY 2018, which sorts packages and bundles simultaneously.<sup>83</sup> In addition, the Postal Service discusses the fact that it added 1,024 sortation bins to the APBS fleet, and 426 bins to the APPS fleet in FY 2018. FY 2018 ACR at 27-28. The Postal Service asserts that making the additional bins available reduces or eliminates the need for secondary sorts, thus reducing handling. *Id.* at 28. The Postal Service gauges the operational impact of adding bins by comparing the volume of mail finalized during the primary operation before and after the bins were added. January 28 Responses to CHIR No. 3, question 2. The Postal Service estimates that after the bins were added an additional 38.9 million mailpieces were finalized on the APBS, and an additional 15.6 million mailpieces were finalized on the APPS. Responses to CHIR No. 6, question 8.

For the AFSM 100 Operation initiative, the Postal Service states that in FY 2018 it removed 10 AFSM 100 machines from processing plants in response to the declining productivity of the machine. Responses to CHIR No. 6, question 10 n.4. Since FY 2016, AFSM 100 productivity has decreased from 2,148 pieces-per-hour to 1,777 pieces-per-hour. *Id.*, question 10. The Postal Service notes that it began removing AFSM 100 machines in February 2017. *Id.* The Postal Service states that while it did not calculate a specific expectation associated with removing AFSM 100 machines, it did not expect productivity to decrease during this period. *Id.* The Postal Service states that it uses “pieces per hour . . . and service performance to gauge the operational impact of removing AFSM 100 machines.” January 28 Responses to CHIR No. 3, question 4.

Next, the Postal Service provides the FSS Scorecard for FY 2018. FY 2018 ACR at 29. The Postal Service states that it uses the FSS Scorecard to develop a list of specific FSS facilities with the greatest opportunity for improvement. *Id.* The FSS Scorecard shows that in FY 2018, throughput-per-hour on FSS machines decreased; the percentage of pieces delivery-point-sequenced decreased; the percentage of mailpieces at-risk<sup>84</sup> decreased; and

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<sup>82</sup> FY 2018 ACR at 26-32; January 28 Responses to CHIR No. 3, questions 2-4; Responses to CHIR No. 6, question 8.

<sup>83</sup> FY 2018 ACR at 27. The EPPS machine was introduced at the end of FY 2018, with only one machine being in operation for only one week. January 28 Responses to CHIR No. 3, question 3. The Postal Service expects this machine to process 25,000 bundles and/or packages per hour; however, in FY 2018 the machine processed only 8,714 pieces per hour. See FY 2018 ACR at 28; January 28 Responses to CHIR No. 3, question 3.

<sup>84</sup> Mailpieces at-risk are those pieces that did not follow the prescribed path of sortation on the FSS and require additional handling. Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-23 of Chairman’s Information Request No. 4, January 22, 2016, question 13.

leakage<sup>85</sup> increased. FY 2018 ACR at 29. The Postal Service did not provide a plan to address the declining metrics shown on the FSS Scorecard, but instead indicates that it “intends to create a Headquarters Functional Review Team to evaluate the FSS operations in FY 2019.” January 28 Responses to CHIR No. 1, question 16. The Postal Service was unable to provide any additional information regarding the Headquarters Functional Review Team, such as when it will be created, what the objective of the Headquarters Functional Review Team will be, or if the Headquarters Functional Review Team will provide recommendations and if the Postal Service will implement those recommendations. Responses to CHIR No. 11, question 1.

With regard to the Service Performance Diagnostics (SPD) tool, the Postal Service states that it uses this tool, along with Informed Visibility (IV), to track and improve the flow of USPS Marketing Mail and Periodicals. FY 2018 ACR at 29. Specifically, the Postal Service monitors Work in Process (WIP) cycle time to measure the time between a mailpiece’s arrival at a plant and bundle-to-piece distribution. *Id.* at 29-30. In FY 2018, the median hours between operations increased by 4 hours for USPS Marketing Mail Flats, and 3 hours for Periodicals. *Id.* at 30. In FY 2019, the Postal Service states that it intends to decrease the WIP cycle time by “re-certifying plants in Lean Mail Processing and focusing on First-In-First-Out (FIFO) discipline,”<sup>86</sup> and by improving throughput on mail processing equipment. January 11 Responses to CHIR No. 1, question 18.

Finally, the Postal Service lists Reduce Bundle Breakage as an initiative intended to reduce costs. FY 2018 ACR at 30-32. The Postal Service states that it intends to work “with the mailing industry, through the Mailers Technical Advisory Committee, to study the causes and impacts of bundle breakage.” *Id.* at 30. Specifically, the Postal Service calculates that the incidence of bundle breakage in FY 2018 was 4.80 percent, compared to 2.82 percent in FY 2017. *Id.* at 31. The Postal Service notes that beginning in Quarter 2 of FY 2018, it “bolstered its bundle breakage tracking,” adding the ability to detect pieces from broken bundles on additional machines. *Id.* In addition, the Postal Service is utilizing the Bundle Breakage Dashboard to determine the root cause of bundle breakage. *Id.* at 32. Finally, the Postal Service discusses that it is reviewing Bundle Leakage data to gain insight into improper flows and manual handlings of bundles. *Id.*

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<sup>85</sup> Leakage is a metric used by the Postal Service to identify “mailpieces that were FSS candidate pieces, but were processed on other automation equipment or dispatched to the delivery unit as working volume.” Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-10 of Chairman’s Information Request No. 5, January 26, 2018, question 1.a.

<sup>86</sup> In response to a CHIR which inquired about Lean Mail Processing not being an FY 2018 operational initiative, the Postal Service explains that it “focused on sustaining and refining previous projects instituted to standardize and improve[ ] the bundles and flats mail processing flows.” January 11 Responses to CHIR No. 1, question 17.



## (2) Costing Methodology Changes in FY 2018

The Postal Service states that there were no major costing methodology changes implemented in FY 2018 that factored into unit cost increases for USPS Marketing Mail Flats.<sup>87</sup>

## (3) Historical and Current Fiscal Year Subsidies

The Postal Service provides the historic and current fiscal year subsidy for the USPS Marketing Mail Flats product. FY 2018 ACR at 32-36; Responses to CHIR No. 14, question 1. However, the Postal Service does not provide a timeline for phasing out the subsidy, and asserts that it is difficult to predict when the subsidy will be phased out. January 11 Responses to CHIR No. 1, question 14. Specifically, the Postal Service is unable to determine how its most recent price adjustments will impact the subsidy. *Id.* In Docket No. R2018-1, the Postal Service increased USPS Marketing Mail Flats' prices 0.231 percentage points above average, and in Docket No. R2019-1, the Postal Service increased USPS Marketing Mail Flats' prices 0.139 percentage points above average.<sup>88</sup>

### e. Comments on USPS Marketing Mail Flats

The Commission received comments from the Public Representative, the American Catalog Mailers Association (ACMA),<sup>89</sup> MPA/ANM, Quad Graphics (Quad),<sup>90</sup> and PostCom regarding the financial performance of USPS Marketing Mail Flats in FY 2018. The Postal Service filed reply comments related to USPS Marketing Mail Flats. The comments generally address USPS Marketing Mail Flats' costs, as well as compliance with the Commission's FY 2010 USPS Marketing Mail Flats ACD directive and mail mix changes.

### (1) Compliance with the Commission's FY 2010 Flats ACD Directive and Issues Related to USPS Marketing Mail Flats' Costs

The Public Representative, ACMA, MPA/ANM, Quad, and PostCom filed comments regarding the pricing and cost directives related to USPS Marketing Mail Flats. The Public Representative notes that the Postal Service's scheduled rate increases provide a "necessary component of the Postal Service's broader strategy to improve the cost coverage" of USPS Marketing Mail Flats. PR Comments at 43. Regarding costs for USPS Marketing Mail Flats, she concludes that no progress was made in FY 2018 toward addressing the issues raised in the FY 2010 ACD. *Id.* at 44. She notes that while the Postal

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<sup>87</sup> FY 2018 ACR at 32. The Postal Service does, however, note two minor methodological changes that could have had small impacts on USPS Marketing Mail Flats' costs. First, the Commission approved a reorganization of mail processing cost pools in Docket No. RM2018-10. See Order No. 4855. The Postal Service asserts that the financial impact of this change was small—estimated at less than 1 million dollars in FY 2017. FY 2018 ACR at 32-33. Second, the Commission approved (with modification) an update to the methodology used to divide city carrier costs in Docket No. RM2017-9. See Docket No. RM2017-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), February 6, 2018 (Order No. 4399). The Postal Service estimates that the impact of this proposal on USPS Marketing Mail Flats' costs was "a slight decrease of 0.2 cents." FY 2018 ACR at 32-33.

<sup>88</sup> Order No. 4215; Order No. 4875.

<sup>89</sup> Initial Comments of the American Catalog Mailers Association (ACMA), February 14, 2019 (ACMA Comments).

<sup>90</sup> Comments of Quad Graphics, February 14, 2019 (Quad Comments).

Service reports on various operational initiatives related to reducing costs for flat-shaped products, those initiatives appear not to have been effective. *Id.* With regard to the Postal Service's contention that a significant price increase could result in even steeper volume declines, she observes that the Postal Service appears to be facing a situation where the cost coverage for USPS Marketing Mail Flats is deadlocked. *Id.*

ACMA asserts that the incessant growth in costs for flat-shaped products, despite initiatives by the Postal Service to lower them, is making it clearer that the Postal Service is failing at its obligation to provide mailers with an efficient delivery service. *See generally* ACMA Comments. ACMA argues that "costs reported for the various flats categories raise serious questions of validity." *Id.* at 2, 24. For example, ACMA shows that using a cost index it developed, factor prices<sup>91</sup> for USPS Marketing Mail Flats increased 76.1 percent since FY 1998, while unit costs for USPS Marketing Mail Flats have risen 188.6 percent during the same period. *Id.* at 6-9, 23-24. ACMA maintains that these cost increases are not due to lost scale economies. *Id.* at 9, 19-20. ACMA asserts that the solution is not to impose further rate increases, but for the Postal Service to re-engineer its processing operation. *Id.* at 25.

MPA/ANM similarly assert that the Postal Service's performance with regard to controlling costs for flat-shaped products reached new lows in FY 2018. MPA/ANM Comments at 2-4. Like ACMA, MPA/ANM contend that cost increases cannot be attributed solely to the loss of economies of scale. *Id.* at 2-3.

PostCom maintains that while the Commission should be commended for its efforts in investigating cost issues with regard to flat-shaped products, those efforts have failed. PostCom Comments at 10. PostCom asserts that the Postal Service's most recent responses to the Commission's FY 2010 USPS Marketing Mail Flats Directives show performance declines in all relevant operational and service indices. *Id.* PostCom notes that while the Postal Service has enumerated a list of operational initiatives to implement, it has been unable to provide an estimate of the economic impact of these initiatives. *Id.* Thus, PostCom concludes that there is no reason to believe that the Postal Service's planned operational initiatives will have any meaningful impact. *Id.* at 11. PostCom asserts that price increases are unlikely to make a difference without a sustainable path forward. *Id.* PostCom also specifically "urges the Commission to seek information that would allow a better understanding of changes in transportation costs, including but not limited to [Postal Service] information on capacity utilization and transportation productivity." *Id.* at 12.

The Postal Service replies to comments regarding issues related to USPS Marketing Mail Flats' costs. The Postal Service first contends that Docket No. RM2018-1, not a compliance proceeding, is the appropriate docket in which to address cost issues for flat-shaped products. Postal Service Reply Comments at 11-12. The Postal Service also contends that ACMA's cost arguments do not present or discuss USPS Marketing Mail Flats' unit cost

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<sup>91</sup> ACMA defines factor prices as prices paid for inputs to production processes; these inputs include: labor, transportation, and equipment. ACMA Comments at 7 n.9.

coverage adjusted for input factor price changes. *Id.* Once such an adjustment has been conducted, the Postal Service maintains that USPS Marketing Mail Flats' unit costs increased only 28 percent between 2008 and 2018. *Id.* at 7-9. The Postal Service also contends that ACMA is wrong to dismiss the possibility of declines in economies of scale and density, in conjunction with increases in factor inputs, to explain the observed cost trends that have occurred with regard to USPS Marketing Mail Flats. *Id.* at 9-10. Finally, the Postal Service asserts that ACMA is incorrect when it states that the Postal Service's scale of operations has not changed. The Postal Service asserts that the existing data on the question are actually to the contrary. *Id.* at 10-11.

## (2) Mail Mix Changes

ACMA observes the existence of mail mix shifts within the USPS Marketing Mail class. First, ACMA notes that USPS Marketing Mail Flats once constituted the principal flat-shaped category within the USPS Marketing Mail class, but now constitutes just 30 percent of Non-Saturation flat-shaped volume. ACMA Comments at 3. ACMA asserts that USPS Marketing Mail Flats, Carrier Route Flats, and High-Density Flats are interdependent products, and they should be analyzed together for purposes of cost coverage. *Id.* at 3.

Second, ACMA notes that commercial mail volume for certain products is declining faster than nonprofit mail volume. ACMA Comments at 5, 14-15. ACMA asserts that these shifts are contributing to cost coverage issues for USPS Marketing Mail Flats. *Id.* ACMA asserts that USPS Marketing Mail Flats has become a predominantly nonprofit mail product, and its volume has shifted from cities to rural areas, which further affects its cost coverage. *Id.* at 15, 24-25. ACMA contends that such nonprofit mail has a societal benefit that is recognized by the PAEA, whether it is sent for purposes of soliciting funds, providing information, offering services, or some other similar purpose. *See id.* at 15. ACMA asserts that as a matter of policy, understanding this fact should dampen any concern that USPS Marketing Mail Flats is noncompensatory. *See id.*

PostCom notes that the Postal Service has expressed the intent to evaluate combining USPS Marketing Mail Flats, Carrier Route Flats, and High-Density Flats into a single Non-Saturation flat-shaped product, and cites this fact as proof that the Postal Service is failing in its effort to control costs for flat-shaped products.<sup>92</sup>

Quad also addresses the Postal Service's proposal to combine USPS Marketing Mail Flats, Carrier Route Flats, and High Density Flats into a single Non-Saturation flats product. Quad Comments at 1. Quad asserts that this would be ineffective because it would obscure reality with regard to unprofitable products and could diminish price signals to mailers that encourage profitable mail. *Id.* In addition, Quad notes "continued degradation" in the FSS

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<sup>92</sup> PostCom Comments at 10 (citing FY 2018 ACR at 18). In the FY 2018 ACR, the Postal Service states that it "intends to evaluate combining Flats, Carrier Route Flats, and High Density Flats into a single Non-Saturation Flats product." FY 2018 ACR at 18. The Commission notes that no proposal has been filed. Therefore, while the Commission notes the positions of these commenters, the Commission does not address the merits of any such proposal at this time.

Scorecard, and asserts that the Postal Service needs to fix or remove the FSS rather than expect mailers to pay more for inefficient mail processing.<sup>93</sup>

f. Commission Analysis

The FY 2010 ACD directed the Postal Service to improve the cost coverage of USPS Marketing Mail Flats through a combination of cost reductions and above-average price increases. In addition, the Commission required the Postal Service to file data and information related to the intra-class cross-subsidy of USPS Marketing Mail Flats by other products within the USPS Marketing Mail class, as well as operational initiatives designed to reduce costs for this product and the cost impact of any cost methodology changes related to this product.

Consistent with the FY 2010 ACD Directive, the Commission first analyzes the cost coverage and unit contribution of USPS Marketing Mail Flats and the Postal Service's progress at increasing the product's cost coverage. Second, the Commission analyzes the intra-class subsidy provided to USPS Marketing Mail Flats by other products within the USPS Marketing Mail class. Third, the Commission examines USPS Marketing Mail Flats' costs in more detail by reviewing actual unit cost results, and the Postal Service's efforts to reduce costs through operational initiatives. Fourth, the Commission analyzes changes in unit revenues and the Postal Service's price adjustments for USPS Marketing Mail Flats following the FY 2010 ACD. Finally, the Commission directs the Postal Service to improve this product's cost coverage through an enhanced directive.

(1) FY 2018 Cost Coverage and Unit Contribution

In this section, the Commission analyzes the overall progress the Postal Service has made in improving the cost coverage and unit contribution for USPS Marketing Mail Flats. Cost coverage and unit contribution are both functions of cost and revenue; therefore, the Commission discusses trends in cost and revenue in this section. In sections (3) and (4) below, the Commission more specifically analyzes costs (along with the Postal Service's efforts to reduce costs), as well as revenues (along with the Postal Service's efforts to increase prices).

Despite the FY 2010 ACD directive to improve cost coverage, the cost coverage for USPS Marketing Mail Flats was 68.7 percent in FY 2018. The FY 2018 cost coverage is now the lowest recorded cost coverage for USPS Marketing Mail Flats since it was designated a product. This is the fifth consecutive year that cost coverage has declined. As shown in Table III-6, a significant increase in unit cost resulted in a unit contribution of -18.4 cents in FY 2018, a 4.9 cent decline from FY 2017. The Postal Service has also been unsuccessful in increasing unit revenues. Table III-6 shows that despite the Commission's FY 2010 ACD directive, unit revenues have only increased 3.9 cents, or 10.7 percent, since FY 2010, while unit costs have increased, 14.1 cents, or 31.5 percent.

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<sup>93</sup> *Id.* at 1-2. The Commission discusses comments regarding the FSS in Chapter 6 of this Report.

**Table III-6**  
**USPS Marketing Mail Flats Unit Revenue, Attributable Cost, and Contribution,**  
**FY 2008–FY 2018**

| <b>Fiscal Year</b> | <b>Unit Revenue (cents)</b> | <b>Unit Attributable Cost (cents)</b> | <b>Unit Contribution (cents)</b> |
|--------------------|-----------------------------|---------------------------------------|----------------------------------|
| FY 2008            | 36.7                        | 38.9                                  | -2.2                             |
| FY 2009            | 36.9                        | 44.8                                  | -7.9                             |
| FY 2010            | 36.6                        | 44.8                                  | -8.2                             |
| FY 2011            | 36.8                        | 46.3                                  | -9.5                             |
| FY 2012            | 37.6                        | 46.5                                  | -8.9                             |
| FY 2013            | 38.4                        | 45.2                                  | -6.8                             |
| FY 2014            | 40.4                        | 48.5                                  | -8.1                             |
| FY 2015            | 40.2                        | 50.1                                  | -9.9                             |
| FY 2016            | 37.5                        | 47.3                                  | -9.7                             |
| FY 2017            | 38.5                        | 52.0                                  | -13.5                            |
| FY 2018            | 40.5                        | 58.9                                  | -18.4                            |

Source: PRC–LR–ACR2018/4.

Since FY 2015, when the Commission determined that the Postal Service was no longer making progress at improving cost coverage of USPS Marketing Mail Flats,<sup>94</sup> underlying events have impacted this product's cost coverage and unit contribution. Such events include the exigent surcharge that was in place from January 26, 2014 through April 10, 2016,<sup>95</sup> which had a positive impact on unit revenues, and the migration of Carrier Route volume to and from the USPS Marketing Mail Flats product as a result of FSS pricing, which occurred in FY 2016 and FY 2017, and which impacted unit costs and unit revenues. FY 2018 ACR at 33-35. FY 2018 represents the first full year of recent data for which the unit revenue and unit costs for USPS Market Mail Flats were not impacted directly by underlying events. However, while the Carrier Route migration does not directly affect FY 2018 data, it does continue to impact the FY 2017 unit revenue and unit attributable cost data,<sup>96</sup> so the Commission must continue to account for this when making comparisons between FY 2017 and other fiscal years.<sup>97</sup>

<sup>94</sup> See FY 2015 ACD at 64.

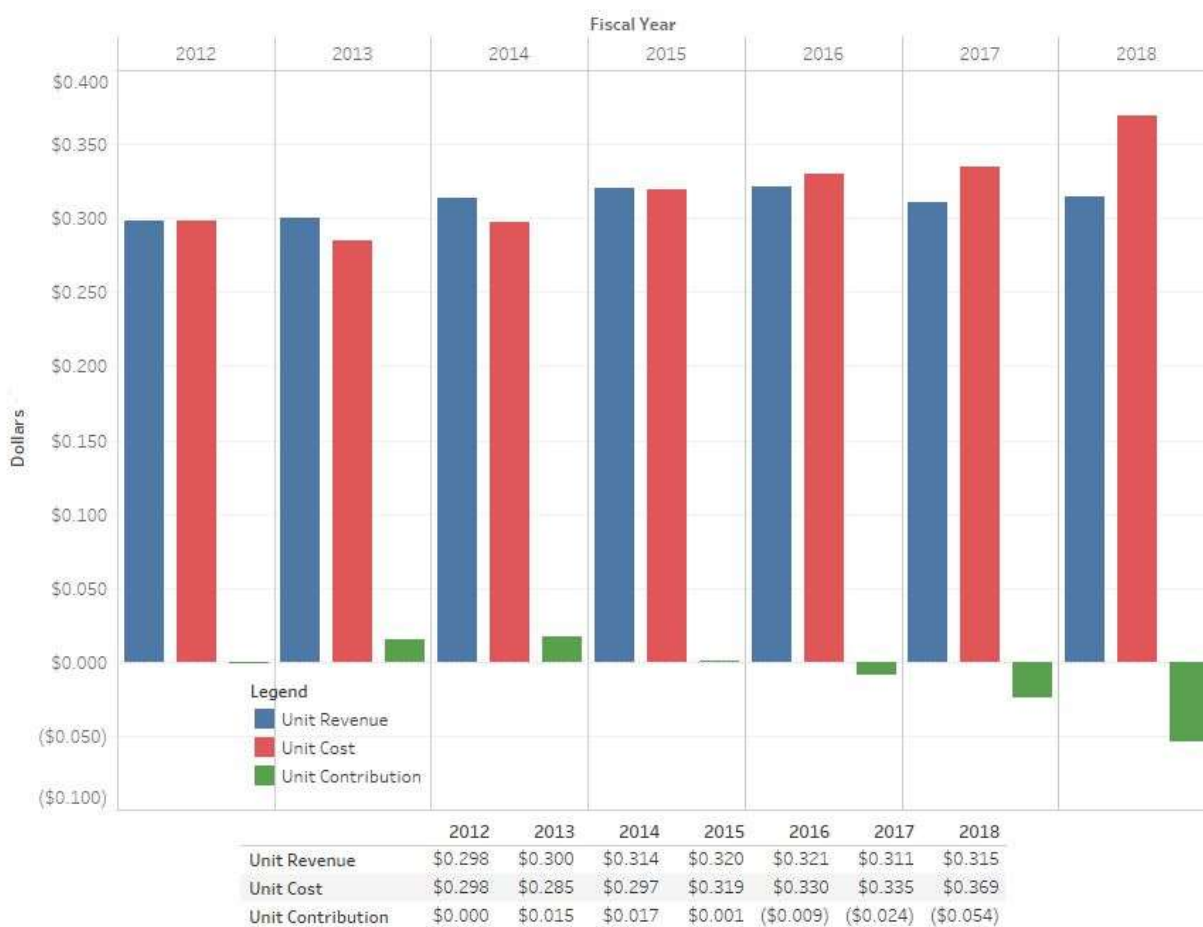
<sup>95</sup> See Docket No. R2013-11, Notice of the United States Postal Service of Removal of the Exigent Surcharge, February 25, 2016, at 1-2.

<sup>96</sup> The inclusion of low cost and low priced FSS mail likely weighed down the unit revenue and unit costs for USPS Marketing Mail Flats in FY 2018.

<sup>97</sup> In Quarter 1 of FY 2017, and the beginning of Quarter 2 (specifically, January 2017), FSS prices were still available. Therefore, FY 2017 USPS Marketing Mail Flats data include some lower cost, lower revenue volume that migrated from Carrier Route.

For comparison purposes, the Commission normalizes the relevant data to remove the impact of the migration of Carrier Route volume by combining revenue, cost, and volume data for USPS Marketing Mail Flats and Carrier Route.<sup>98</sup> Figure III-2 illustrates this comparison of cost, revenue, contribution, and volume changes over time. By combining the two products, the influence of the migration between USPS Marketing Mail Flats and Carrier Route is eliminated and the Commission is better able to observe overall trends in unit cost, unit revenue, and unit contribution for flat-shaped mail.

**Figure III-2**  
**Combined USPS Marketing Mail Flats and Carrier Route Unit Revenue, Unit Cost,**  
**and Unit Contribution, FY 2012–FY 2018**



Source: PRC–LR–ACR2018/4.

<sup>98</sup> The Postal Service and commenters have asserted that these products share the same characteristics and the data can be combined for analysis. See, e.g., ACMA Comments at 4; Docket No. ACR2010, United States Postal Service FY 2010 Annual Compliance Report, December 29, 2010, at 31 n.10.

As shown in Figure III-2, the combined unit contribution from USPS Marketing Mail Flats and Carrier Route was negative for the third time in FY 2018, with an all-time low unit negative contribution of -\$0.054. From FY 2017 to FY 2018, combined unit revenue increased 1.3 percent, while combined unit cost increased 10.1 percent. As shown in Table III-6, the Postal Service has failed to reduce costs and/or increase revenue in a way that improves cost coverage and contribution for USPS Marketing Mail Flats as required by the FY 2010 ACD directive.

In the FY 2015 ACD, following decreases in unit contribution in FY 2014 and FY 2015, the Commission directed the Postal Service to measure, track, and report on cost issues related to all flat-shaped mail. FY 2015 ACD at 181. In response to this directive, the Postal Service indicated that it was unable to provide specific methods to measure or track the cost issues related to flat-shaped mail. *See* FY 2016 ACD at 170. As a result of the Postal Service's response to the FY 2015 ACD directive, the Commission issued proposed rules that, in part, were designed to improve the transparency of flat-shaped mail costs and increase the accountability associated with operational initiatives aimed at improving efficiency and reducing costs for flat-shaped mail.<sup>99</sup> Since the FY 2015 ACD directive, USPS Marketing Mail Flats' contribution has continued to decline another 8.5 cents. The steps that the Postal Service has taken to improve cost coverage for this product have not been effective, and the Postal Service has been unable to quantify the financial effect of any of its cost reduction efforts.

Following the Commission's directives in FY 2010 and FY 2015, stakeholders—specifically Valpak, the Public Representative, and PostCom—have continued to comment on the ineffectiveness of the Commission's directives with respect to this product's cost coverage. For example, in Docket No. ACR2014, Valpak observed that the Commission's FY 2010 ACD directive was ineffective because of the continued decline of cost coverage, and PostCom stated that the Postal Service's cost reduction efforts were counterproductive.<sup>100</sup> In addition, Valpak commented that the Postal Service's approach of pursuing only minimal increases in price above CPI-U was "woefully insufficient." Docket No. ACR2014, Valpak Initial Comments at III-14. Valpak therefore urged the Commission to "issue a . . . remedial order requiring the Postal Service to rapidly and substantially increase prices for [USPS Marketing Mail] Flats, offset by reductions in price to products with the highest [cost] coverages [within the USPS Marketing Mail class], led by High Density [and] Saturation Letters[.]" *Id.* at II-11. In Docket No. ACR2016, Valpak argued that "the cost reduction portion of [the FY2010 ACD] remedy has been nonexistent—or entirely ineffective," and the Public Representative stated that he "cannot conclude that the Postal Service fully

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<sup>99</sup> See Docket No. RM2018-1, Notice of Proposed Rulemaking for Reporting Requirement Related to Flats, March 1, 2019 (Order No. 5004).

<sup>100</sup> Docket No. ACR2014, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments on the United States Postal Service FY 2014 Annual Compliance Report, February 2, 2015, at II-6 (Docket No. ACR2014, Valpak Initial Comments); Docket No. ACR2014, Initial Comments of the Association for Postal Commerce, February 2, 2015, at 2.

followed the Commission's directive regarding cost reduction . . . ."<sup>101</sup> In another example, in Docket No. ACR2017, Valpak contended that the annual negative contribution from USPS Marketing Mail Flats will continue to accrue so long as the FY 2010 ACD directive is left unchanged.<sup>102</sup>

In the FY 2010 ACD, the Commission found that USPS Marketing Mail Flats presented an "extreme case" of deficient cost coverage, and the Commission directed the Postal Service to address the cost coverage of USPS Marketing Mail Flats through a combination of cost reductions and above-average price increases.<sup>103</sup> Since the issuance of the FY 2010 ACD directive, the Commission has allowed the Postal Service ample time to address these issues. However, cost coverage improvement and contribution gains have rarely been seen, and the steps that the Postal Service has taken to address the cost coverage declines have been ineffective. Moreover, the Postal Service has been unable to explain the financial effect of its cost reduction efforts. Despite the directives in FY 2010 and FY 2015, USPS Marketing Mail Flats presents an even more "extreme case" of deficient cost coverage in FY 2018 than it did in FY 2010.

*The Commission finds that the Postal Service has been unsuccessful in improving the cost coverage of USPS Marketing Mail Flats consistent with the FY 2010 ACD Directive.*

## (2) Intra-Class Cross-Subsidy

The Commission next analyzes the increasingly negative impact that USPS Marketing Mail Flats has on other products within the USPS Marketing Mail class. In the FY 2010 ACD, as part of its finding of noncompliance, the Commission analyzed the intra-class subsidy of USPS Marketing Mail Flats, specifically by USPS Marketing Mail Letters, and found that the rates for USPS Marketing Mail Flats "produced a substantial and growing cost coverage shortfall that burdened mailers of other [USPS Marketing Mail] products."<sup>104</sup> The Commission issued the FY 2010 ACD directive with the intent of reducing the contribution gap between these products, finding that the prices for USPS Marketing Mail Flats "did not comply with section 101(d) [and reflected] 'an unfair and inequitable apportionment of the costs of postal operations to all [USPS Marketing Mail] users.'" Order No. 1427 at 8.

Section 101(d) of Title 39 requires that postal rates "be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." In finding in the FY 2010 ACD that USPS Marketing Mail Flats violated section 101(d), the Commission

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<sup>101</sup> Docket No. ACR2016, Valpak Direct Marketing Systems, Inc. and the Valpak Franchise Association, Inc. Initial Comments on the United States Postal Service FY [2016] Annual Compliance Report, February 2, 2017, at 15; Docket No. ACR2016, Public Representative Comments, February 2, 2017 (REVISED February 16, 2017) at 34.

<sup>102</sup> Docket No. ACR2017, The Valpak Franchise Association, Inc. Reply Comments on the United States Postal Service FY 2017 Annual Compliance Report, February 12, 2018, at 2-3.

<sup>103</sup> See FY 2010 ACD at 105-07; Order No. 1427 at 9-10. See also *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012).

<sup>104</sup> Order No. 1427 at 8; FY 2010 ACD at 15-16; 103-104.



later identified numerous factors which, together constitute circumstances that would trigger section 101(d)'s applicability to a compliance determination:

[A] significant and growing cost coverage shortfall; duration of the shortfall over a significant period; evidence that the cost coverage shortfall was likely to increase further; a significant adverse impact on users of other mail products (some of whom could be competitors of mailers of the subsidized mail product) requiring subsidization of the noncomplying product; failure of the Postal Service to address the shortfall by rate increases, cost decreases, or a combination thereof, despite the capability to do so; and failure of the Postal Service to provide an adequate explanation for not taking necessary remedial steps designed to ameliorate the cost coverage shortfall.

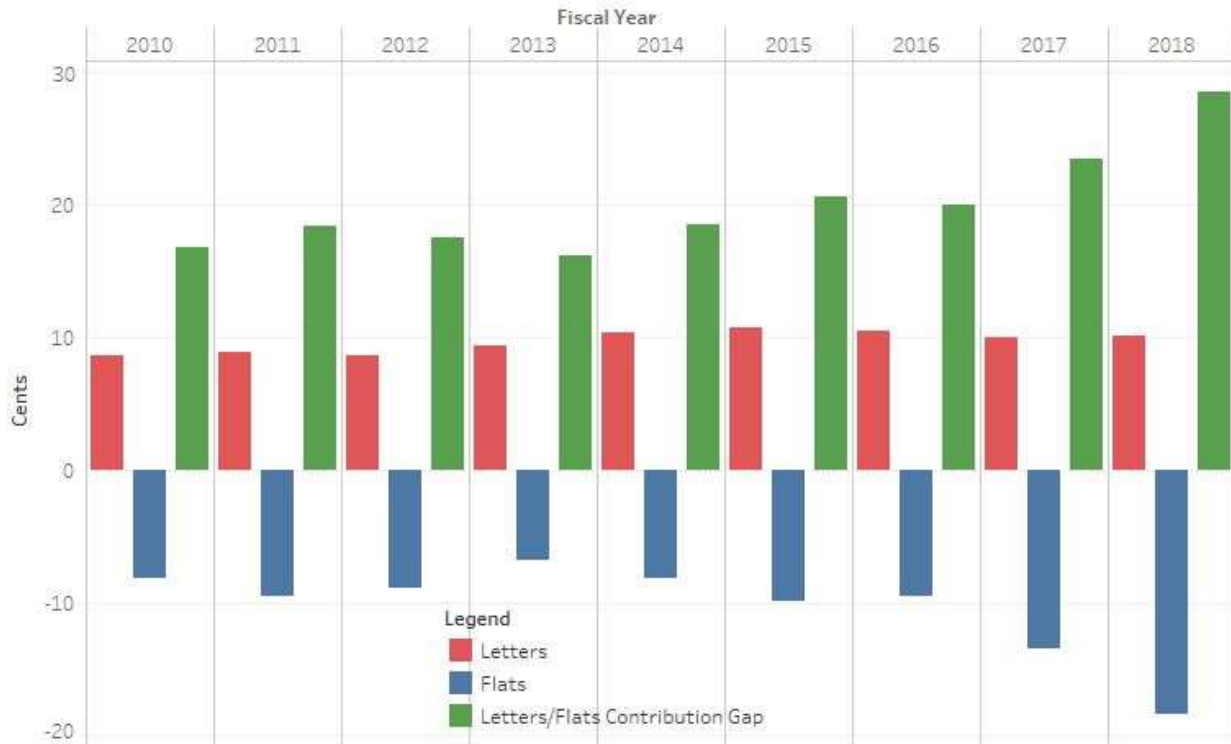
Order No. 1427 at 9. After a review of the increasing cost coverage shortfall from USPS Marketing Mail Flats, the Commission determined that “the factors presented in the FY 2010 ACR constituted ‘extreme circumstances’ authorizing Commission action under § 101(d).” *Id.* Moreover, the Commission determined that requiring the Postal Service to implement above-average price increases and cost reductions was appropriate given the magnitude of the cost coverage shortfall and the Postal Service’s continued failure to take “ameliorative steps to eliminate the shortfall and subsidies by improving cost coverage or [provide] an explanation justifying the failure to take ameliorative steps.” *Id.* at 12.

Figure III-3 shows that, despite the FY 2010 ACD Directive, the contribution gap<sup>105</sup> between USPS Marketing Mail Letters and USPS Marketing Mail Flats has continued to increase at an accelerated rate. In FY 2010, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats was \$0.168. In FY 2018, the contribution gap between these two products increased to \$0.286. From FY 2010 to FY 2018, the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats increased more than 70 percent.

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<sup>105</sup> The contribution gap is calculated as the difference between the unit contribution made by USPS Marketing Mail Letters and the unit contribution made by USPS Marketing Mail Flats.

**Figure III-3**  
**USPS Marketing Mail Flats and Letters Unit Contribution**  
**and Contribution Gap FY 2010–FY 2018**



Source: PRC–LR–ACR2018/4.

As demonstrated in Figure III-3 and Table III-5, in FY 2010 the cost coverage for USPS Marketing Mail Flats was 81.8 percent, the cumulative negative contribution for USPS Marketing Mail Flats over the years FY 2008 through FY 2010 was \$1.4 billion, and the contribution gap between USPS Marketing Mail Letters and USPS Marketing Mail Flats was 16.8 cents. FY 2010 ACD at 16, 105. Since the Commission issued the FY 2010 directive 8 years ago, cost coverage has plummeted 13 percentage points to 68.7 percent, the cumulative contribution over the years FY 2008 through FY 2018 is \$5.9 billion, and the unit contribution of USPS Marketing Mail Flats has decreased a disturbing 126 percent. During the same period, the cost coverage for USPS Marketing Mail Letters grew 13 percentage points to 195 percent in FY 2018, the cumulative contribution over the years FY 2008 through FY 2018 was over \$50.6 billion, and the unit contribution of USPS Marketing Mail Letters has increased 17 percent, which amounts to a 1.5 cent increase.

*The Commission finds that USPS Marketing Mail Flats continue to violate 39 U.S.C. § 101(d). The Commission finds that USPS Marketing Mail Flats has an unacceptable deficient cost coverage that continues to constitute an intra-class subsidy that unfairly burdens other mailers within the USPS Marketing Mail class.*

(3) Unit Costs and FY 2018 Operational Initiatives to Reduce Costs

As shown above in Table III-4, from FY 2017 to FY 2018, USPS Marketing Mail Flats' unit costs have increased 6.9 cents, or 13.4 percent. From FY 2010 to FY 2018, unit costs have increased 14.1 cents, or 31.4 percent. In this section, the Commission responds to trends identified by the Postal Service and commenters that are alleged to explain increases in unit cost for USPS Marketing Mail Flats. The Commission then reviews the operational changes/initiatives identified by the Postal Service that are intended to reduce costs for USPS Marketing Mail Flats. Based on these considerations, the Commission assesses the effectiveness of the Postal Service's efforts to reduce costs.

(a) Trends Identified by the Postal Service and Commenters

The Postal Service and commenters identify several potential drivers that could have contributed to unit cost increases in FY 2018. First, the Postal Service suggests that costs for USPS Marketing Mail Flats were impacted by mail mix changes, both within the USPS Marketing Mail Flats product, and within the USPS Marketing Mail class more broadly. FY 2018 ACR at 17-18. Specifically, the Postal Service suggests that High Density Flats are becoming a greater share of flat-shaped volume within the USPS Marketing Mail class. *Id.* The Postal Service also suggests that low-cost DSCF-entry mail is migrating from USPS Marketing Mail Flats to High Density. *Id.* at 18. The Postal Service supports this claim by asserting that DSCF-entry volume within the USPS Marketing Mail Flats product is declining, and DSCF-entry volume within the High Density product is increasing. *Id.*

Contrary to the Postal Service's assertion, however, the Commission finds that the proportion of DSCF-entry mail in the USPS Marketing Mail Flats product is actually increasing slightly, not decreasing. Specifically, in FY 2014, 50 percent of USPS Marketing Mail Flats were entered at a DSCF, while in FY 2018, 52 percent of USPS Marketing Mail Flats were entered at a DSCF, a 2 percentage point increase. *See* PRC-LR-ACR2018/4. It appears that DSCF-entry within the USPS Marketing Mail Flats product was impacted by the existence of DFSS-entry discounts in FY 2015, FY 2016, and FY 2017.<sup>106</sup> However, from FY 2014 to FY 2018, unit costs rose 21.5 percent; therefore, it is unlikely that the volume of DSCF-entered mail is the primary driver of increased unit costs. The Commission also notes that the passthrough for DSCF-entered USPS Marketing Mail Flats in FY 2018 was 67.5 percent.<sup>107</sup> The Postal Service has the ability to increase this discount to incentivize more low-cost DSCF-entered volume.

Second, ACMA contends that nonprofit volume is making up a larger proportion of the USPS Marketing Mail Flats product, which negatively impacts the overall cost coverage of

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<sup>106</sup> *Id.* The vast majority of FSS facilities are co-located with a DSCF or have bundle sorting capabilities, and in those facilities, DFSS functions like a DSCF. Docket No. R2015-4, Response of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, question 5, January 30, 2015.

<sup>107</sup> *See* Library Reference USPS-FY18-3, Excel file "FY18.3 WorksharingTables.xlsx," December 28, 2018.

USPS Marketing Mail Flats. ACMA Comments at 5. The Commission notes that in FY 2015, nonprofit mail constituted 22 percent of total USPS Marketing Mail Flats volume, while in FY 2018 nonprofit mail constituted 26 percent of total USPS Marketing Mail Flats volume. *See* PRC-LR-ACR2018/4. However, as ACMA demonstrates, the cost coverage for commercial USPS Marketing Mail Flats is also substantially below 100 percent. ACMA Comments at 4. Therefore, simply identifying the relative proportions of commercial and nonprofit mail within the USPS Marketing Mail Flats product does little to solve the systemic problem of the product's cost coverage.

Finally, the Postal Service and ACMA discuss a range of other drivers contributing to unit cost increases. ACMA cites to cost drivers such as: volume shifting from cities to rural areas; factor price increases; and increasing casing time for flat-shaped mail. ACMA Comments at 9-13. The Postal Service discusses cost drivers such as: the impact of hourly labor costs on mail processing and city delivery costs; the impact of an increase in accrued costs for surface transportation on unit transportation costs; persistently declining volumes for USPS Marketing Mail Flats; declining volume processed on the FSS; and the shift in volume to city routes, which are more expensive. January 28 Responses to CHIR No. 3, question 5; Responses to CHIR No. 6, questions 6-7.

While the Postal Service and commenters provide possible reasons why costs have increased and cost coverage has declined, the Postal Service has failed to provide any solutions or plans to address any of these cost drivers. As stated previously, under the FY 2010 ACD directive, the Postal Service could have improved USPS Marketing Mail Flats' cost coverage by focusing on higher-than-average price adjustments and/or by reducing the costs associated with the product. This two-pronged approach recognized that the Postal Service has the ability to make operational decisions to efficiently process, transport, and deliver the mail in a way that reduces costs.

(b) The Postal Service's Operational  
Changes/Initiatives

The Commission next reviews the operational changes and/or initiatives undertaken by the Postal Service in an effort to reduce USPS Marketing Mail Flats' costs. In FY 2018, the Postal Service continued previous operational initiatives but it did not propose any new initiatives. As discussed in more detail above, the initiatives undertaken focused on Bundle Operations, AFSM 100 Operations, monitoring the FSS Scorecard, monitoring WIP cycle times, and reducing bundle breakage. *See* section III.B.1.d(1), *supra*.

Despite outlining its operational initiatives, the Postal Service admits that it is "still unable to provide an estimate of the financial impacts of these operational initiatives," and the Postal Service contends that "it is quite difficult to come up with a unique set of reasonable assumptions about the future course of Flats costs." FY 2018 ACR at 27; Responses to CHIR No. 1, question 14. As previously noted, USPS Marketing Mail Flats' costs increased more than 13 percent since FY 2017. Since the FY 2010 ACD directive, USPS Marketing Mail Flats' costs have increased more than 30 percent. As many commenters point out, it is clear that

the Postal Service's initiatives have not been effective in reducing USPS Marketing Mail Flats' costs. *See, e.g.*, PR Comments at 44.

As the Commission has stated in previous ACDs, the Postal Service's cost savings initiatives should have specific and measurable targets by which the benefits of the programs can be evaluated.<sup>108</sup> The Postal Service must implement initiatives that will have a measurable impact on reducing USPS Marketing Mail Flats' costs. However, the Postal Service has not, despite Commission direction, provided estimates as to the financial impacts of its operational changes intended to reduce costs.

*The Commission finds that the Postal Service's cost-reduction efforts with regard to USPS Marketing Mail Flats have been unsuccessful. In Chapter 6, the Commission explains its continued concerns with the Postal Service's inability to quantify the cost savings of its initiatives to reduce costs for flat-shaped mail products. The Commission describes an ongoing rulemaking that is designed to develop metrics to measure, track, and report on initiatives related to reducing the costs of flat-shaped mail products.*

#### (4) Unit Revenue and Above-Average Price Adjustments

Despite the Commission's FY 2010 directive, the cumulative shortfall in contribution for USPS Marketing Mail Flats from FY 2008 through FY 2018 has grown to \$5.9 billion. As discussed above, the Postal Service has been woefully unsuccessful in reducing the costs of USPS Marketing Mail Flats. In this section, the Commission analyzes the Postal Service's efforts to improve cost coverage through price increases. First, the Commission looks at the changes in unit revenues since the FY 2010 ACD directive. Second, the Commission reviews the Postal Service's price adjustments for USPS Marketing Mail Flats since the FY 2010 ACD directive. Third, the Commission reviews the estimated impact of the Docket No. R2018-1 price adjustment on USPS Marketing Mail Flats' contribution, holding unit costs constant.

##### (a) Changes in Unit Revenues

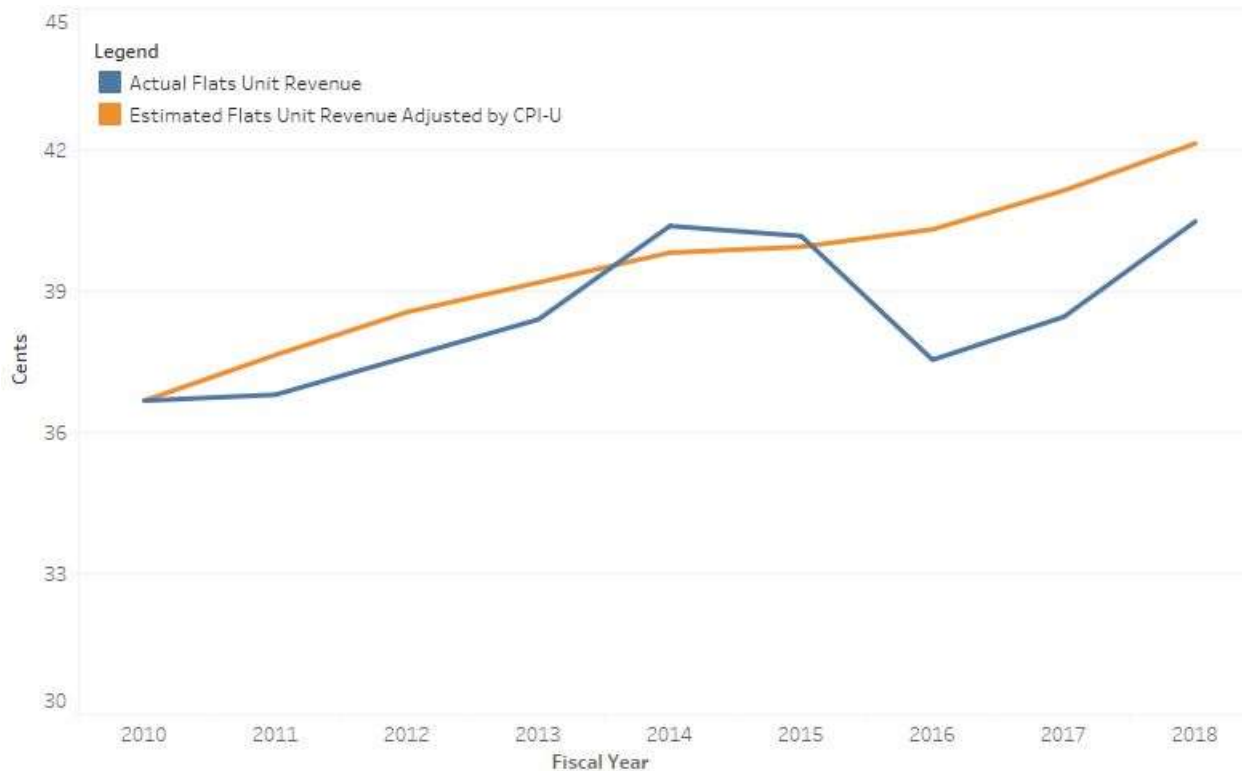
The Postal Service has proposed above-average price increases for USPS Marketing Mail Flats in each Market Dominant price adjustment since the FY 2010 ACD directive. However, because of changes in the mail mix, above-average price increases for the product have not translated to above-average unit revenue increases. Figure III-4 shows the actual unit revenues of USPS Marketing Mail Flats, as well the estimated unit revenues if unit revenues had increased consistent with the change in CPI-U each year following the FY 2010 ACD directive. As shown in Figure II-4, the actual unit revenue for USPS Marketing Mail Flats has increased from 36.7 cents in FY 2010 to 40.5 cents in FY 2018, a 10.4 percent increase.<sup>109</sup> However, if unit revenues had increased at the same rate as CPI-U over the same period, unit revenues would have increased 14.9 percent, or an additional 1.7 cents. This means that in FY 2018 unit revenues would have been 42.1 cents—1.7 cents higher than the actual

<sup>108</sup> See FY 2012 ACD at 116; FY 2013 ACD at 54; FY 2014 ACD at 48; FY 2015 ACD at 64; FY 2016 ACD at 56, 171; FY 2017 ACD at 58, 182.

<sup>109</sup> In FY 2014 and FY 2015, the exigent surcharge was in effect. See Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013 (Order No. 1926). This surcharge was removed in FY 2016. See Docket No. R2013-11, Order on Removal of the Exigent Surcharge and Related Changes to the Mail Classification Schedule, March 29, 2016 (Order No. 3186). The existence of the exigent surcharge explains the increase in actual unit revenues in FY 2014 and FY 2015, as well as the reduction in actual unit revenues in FY 2016.

FY 2018 unit revenue. This increase in unit revenue would have resulted in a 1.7 cent improvement in unit contribution, and a 2.9 percentage point increase in cost coverage. *See* PRC-LR-ACR2018/4.

**Figure III-4**  
**USPS Marketing Mail Flats Actual and Estimated Unit Revenue**



Source: PRC-LR-ACR2018/4.

The Postal Service must remain cognizant of mail mix changes when proposing prices, and do its best to meet the requirements of the price cap while maximizing unit revenue increases within the product. In response to a CHIR, the Postal Service was unable to explain how its Docket No. R2018-1 price adjustment increased pricing efficiency within this product.<sup>110</sup> In addition to any above-average price adjustments, the Postal Service is also able to make pricing decisions that incentivize mailers to workshare their mail, which can directly affect the makeup of the mail mix.<sup>111</sup> While the mail mix does impact a product's cost and revenue, the Postal Service has the ability to leverage its pricing flexibility in order to match its operations and adjust workshare discounts in a way that sends price signals that drive changes in the mail mix. In Order No. 4257, the Commission

<sup>110</sup> Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 17, March 1, 2019, question 3 (Responses to CHIR No. 17). In its response, the Postal Service states "the pricing in response to underwater products was not necessarily efficient." *Id.*

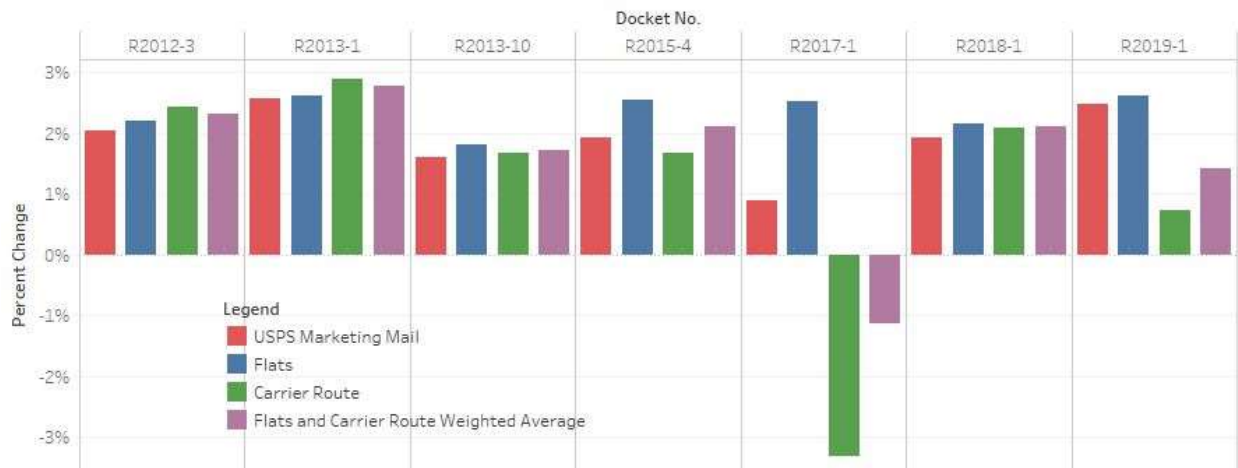
<sup>111</sup> In accordance with ECP, prices are most efficient when workshare discounts are set equal to avoided costs. *See* Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017, at 135-136 (Order No. 4257).

provided a robust analysis of pricing efficiency and Efficient Component Pricing (ECP). Order No. 4257 at 130-39. The Commission determined that “the Postal Service was able to adjust prices to achieve ECP and did not do so during the PAEA era.” *Id.* at 139. One of the benefits of ECP is that worksharing choices do not lead to large swings in cost coverage.

(b) Price Adjustments since FY 2010 ACD

Next, the Commission reviews the price adjustments the Postal Service has pursued for USPS Marketing Mail Flats since the FY 2010 ACD directive. Consistent with the FY 2010 ACD directive, the Postal Service has committed to increasing USPS Marketing Mail Flats’ prices by 1.05 times CPI-U. FY 2018 ACR at 25. In Docket No. R2018-1, the Postal Service increased USPS Marketing Mail Flats prices 0.231 percentage points above average, which equated to 1.08 times Overall USPS Marketing Mail Pricing Authority. *See* PRC–LR–ACR2018/4. Figure III-5 compares the price increases for USPS Marketing Mail Flats to the rest of the USPS Marketing Mail class in each price adjustment following the FY 2010 ACD directive.

**Figure III-5**  
**USPS Marketing Mail Price Increases in Docket Nos. R2012-3 through R2019-1,**  
**Both Class-Wide and for Flats**



Source: PRC–LR–ACR2018/4.

Despite the declining cost coverage and rising unit costs of USPS Marketing Mail Flats, Figure III-5 shows that the Postal Service has given USPS Marketing Mail Flats price adjustments which were only minimally above average in five out of the past seven price adjustments. *See* PRC–LR–ACR2018/4. As demonstrated in Figure III-5, the Postal Service made two price adjustments for USPS Marketing Mail Flats that were more than minimally above average in Docket Nos. R2015-4 and R2017-1. In these dockets, however, the Postal Service made structural changes to the USPS Marketing Mail Flats product by adding and



then removing FSS prices.<sup>112</sup> These structural changes caused a migration of volume between USPS Marketing Mail Flats and Carrier Route, which may have contributed to the materially above-average price increases for USPS Marketing Mail Flats in these dockets. For example, in Docket No. R2017-1, USPS Marketing Mail Flats received a 2.522 percent price increase (1.622 percentage points above average), but Carrier Route received a -3.032 price change (3.932 percentage points below average), and the volume-weighted average price increase of the two products together was -1.128 percent (2.028 percentage points below average). Order No. 3610 at 29; PRC-LR-ACR2018/4.

(c) Estimated Impact of Docket No. R2018-1 Price Adjustment and Other Scenarios

In FY 2018, the Postal Service proposed, and the Commission approved, a price increase of 2.167 percent for USPS Marketing Mail Flats. *See* Order No. 4215 at 37. This increase was 0.231 percentage points above average. *Id.* In this year's ACD proceeding, a CHIR was issued asking the Postal Service to provide estimates of the impact of both a 2 and a 4 percentage point above-average price increase for USPS Marketing Mail Flats.<sup>113</sup> Table III-7 shows the contribution estimates provided by the Postal Service for FY 2018.<sup>114</sup> These estimates covered four scenarios: (1) no price adjustment in FY 2018; (2) the Docket No. R2018-1 price increases as proposed; (3) a 2 percentage point above-average price increase; and (4) a 4 percentage point above-average price increase. These estimates use FY 2018 costs<sup>115</sup> and FY 2018 price elasticities.<sup>116</sup>

<sup>112</sup> See Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015, at 19 (Order No. 2472); Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016, at 13-14 (Order No. 3610).

<sup>113</sup> Chairman's Information Request No. 17, February 22, 2019, question 1 (CHIR No. 17).

<sup>114</sup> The Postal Service constructed various scenarios to respond to CHIR No. 17. The estimates cited here assume a 2 percentage point above-average price increase that was implemented on October 1, 2017, *i.e.*, the price adjustment was in effect for the entire fiscal year, and that price increases for the class are restricted by the price cap. Other scenarios include an implementation date of January 22, 2018 and above-average price increases for USPS Marketing Mail Flats that are not restricted by the price cap. *See* Responses to CHIR No. 17, Excel file "CHIR.17.Q.1t3.MM Scenarios.xlsx."

<sup>115</sup> The Postal Service's analysis assumes that the FY 2018 cost effects of volume changes can reasonably be approximated by multiplying the new volumes by the same unit attributable costs appearing in the FY 2018 CRA. *See* Responses to CHIR No. 17.

<sup>116</sup> See United States Postal Service, Postal Service Econometric Estimates of Demand Elasticity for All Postal Products, FY 2018, January 28, 2019. The Postal Service also notes that "[t]he contribution impacts do not take into account that, when Flats are subject to an above-average price increase, Flats['] volume will decline by more than otherwise. This may lead to the loss of contribution in other mail classes that are stimulated by Flats['] volume." Responses to CHIR No. 17, question 1.

**Table III-7**  
**USPS Marketing Mail Flats and USPS Marketing Mail Class-Wide Estimated Contribution Using**  
**Select Scenarios (in Thousands)**

| Scenarios  | Estimated USPS Marketing Mail Total FY2018 Contribution | Improvement Over Base Year | Estimated USPS Marketing Mail Flats FY 2018 Contribution | Improvement Over Base Year |
|--|---|----------------------------|--|----------------------------|
| <b>No FY 2018 Price Adjustment (Base Year)</b>                   | \$ 4,742.91   |                            | \$ (767.45)  |                            |
| <b>Docket No. R2018-1 Price Adjustment</b>                       | \$ 4,965.90   | \$222.99                   | \$ (745.66)  | \$ 21.79                   |
| <b>2 Percentage Point Above Average Price Increase for Flats</b> | \$ 4,976.60   | \$233.69                   | \$ (709.12)  | \$ 58.33                   |
| <b>4 Percentage Point Above Average Price Increase for Flats</b> | \$ 4,997.85   | \$254.94                   | \$ (632.82)  | \$134.63                   |

Source: PRC-LR-ACR2018/4.

As shown in Table III-7, the Docket No. R2018-1 price adjustment (as proposed), is estimated to have a positive impact on both USPS Marketing Mail class-wide contribution, and USPS Marketing Mail Flats' contribution in FY 2018. In addition, Table III-7 shows that if USPS Marketing Mail Flats prices increased at least 2 percentage points above average, FY 2018 contribution for USPS Marketing Mail and USPS Marketing Mail Flats would have improved even more. Finally, Table III-7, shows that if price increases for the USPS Marketing Mail Flats product were at least 4 percentage points above average, contribution from USPS Marketing Mail and USPS Marketing Mail Flats would have improved at a higher rate in FY 2018. These scenarios, which use reasonable and known assumptions, indicate that increasing prices for USPS Marketing Mail Flats 2 or 4 percentage points above average would likely have a positive impact on the overall contribution of USPS Marketing Mail generally, and the USPS Marketing Mail Flats product, in particular.

*The Commission finds that the Postal Service has the capability to propose a more-than-minimal above-average price increase for USPS Marketing Mail Flats that will improve unit revenues and contribution in a meaningful way.*

(5) FY 2018 Directive

As a result of the Postal Service's failure to comply with the Commission's FY 2010 ACD directive to increase the cost coverage of USPS Marketing Mail Flats, and because the product continues to violate 39 U.S.C. § 101(d), the Commission directs corrective action. The Commission makes this determination based on its past ACD findings, as well as the analysis above that shows continued cost coverage declines, substantial unit cost increases, insufficient cost reductions, inadequate unit revenue increases, and persistent unit contribution declines. In addition, the Commission's analysis shows that the intra-class cross-subsidy has grown within the USPS Marketing Mail class, the Postal Service has been

unable to measure the impact of operational initiatives on USPS Marketing Mail Flats' costs, and minimal above-average price adjustments have been insufficient to outweigh unit cost increases. The Postal Service also has not been able to provide the Commission with insight into the anticipated impact of cost reduction initiatives in FY 2019.

The Commission determines that requiring a price adjustment for USPS Marketing Mail Flats of at least 2 percentage points above average is an appropriate remedy given the extreme case presented by this product's cost coverage shortfall and the likelihood that a price increase of at least 2 percentage points above the class average will have a positive cost coverage effect on the USPS Marketing Mail Flats product. As discussed above, the Postal Service's current schedule of above-average price increases has not resulted in unit revenue increases that outpace unit cost increases. Based on the scenario analysis provided by the Postal Service, a 2 percentage point above-average price increase will result in improved contribution and cost coverage compared to the minimal above-average price increases that the Postal Service has thus far pursued. The Postal Service's scenario analysis also estimates even greater contribution gains from a 4 percentage point above-average price increase for USPS Marketing Mail Flats and while the Commission is directing a 2 percentage point above-average price increase, it will monitor whether a further regulatory action is needed in the next fiscal year's ACD.

Therefore, the Commission determines that a 2 percentage point above-average price increase for USPS Marketing Mail Flats is appropriate to move the product towards compliance with section 101(d) over time. However, the Commission recognizes that price increases alone will not result in the product's compliance with section 101(d). The Postal Service must continue to pursue cost reductions because the full solution must come from a combination of revenue increases and cost reductions. Nevertheless, price adjustments, which are more than minimally above average, are likely to have positive results on cost coverage.

*The Commission finds that the issues raised in the FY 2010 ACD regarding USPS Marketing Mail Flats have significantly worsened, continuing a downward trend that began to accelerate in FY 2014. Despite the Postal Service's efforts to reduce USPS Marketing Mail Flats' costs through operational initiatives—efforts it is unable to measure—unit costs increased substantially over the last fiscal year. From FY 2010 to FY 2018, the cost coverage for USPS Marketing Mail Flats has decreased 13.1 percentage points. In addition, the Postal Service remains unable to predict, using reasonable assumptions, when the USPS Marketing Mail Flats product will cover costs, or what the impact is of any of the Postal Service's cost saving initiatives. Furthermore, in the last two Market Dominant price adjustments the Postal Service has chosen to increase USPS Marketing Mail Flats' prices only minimally above average. As the Commission has found before, it has broad authority to develop and implement a remedy to address an "extreme case" of a violation of 39 U.S.C. § 101(d).<sup>117</sup> The remedy that the Commission implemented in its FY 2010 ACD has proven insufficient to rectify*

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<sup>117</sup> See Order No. 1427; see also *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012).

*the inadequate cost coverage of USPS Marketing Mail Flats. The Postal Service has chosen to pursue only minimal above-average price increases for this product, and it has been unable to reduce the product's costs. USPS Marketing Mail Flats continues to constitute an "extreme case" of deficient cost coverage. Therefore, the remedy must be advanced. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class. Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and providing required documentation of those efforts in future Annual Compliance Reports. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter 6 of this report.*

### 3. USPS Marketing Mail Parcels

#### a. Introduction

In FY 2018, the cost coverage and contribution for USPS Marketing Mail Parcels also continued to decline. In past ACDs, the Commission has approved the Postal Service's approach to improve USPS Marketing Mail Parcels cost coverage through above-average price increases, as well as its approach to expend a reasonable amount of resources to reduce unit costs. FY 2017 ACD at 63. Despite these efforts, however, cost coverage and unit contribution for Parcels have worsened.

#### b. Postal Service FY 2018 Results

In FY 2018, USPS Marketing Mail Parcels had a cost coverage of 58.5 percent,<sup>118</sup> down 5.9 percentage points from FY 2017. In FY 2018, USPS Marketing Mail Parcels' volume declined 14.6 percent, continuing a decline which started in FY 2013. Unit revenue increased by 7.3 percent, but unit attributable cost increased by 18.2 percent from the previous fiscal year. This resulted in a 24.2 cent decrease in unit contribution from FY 2017 to FY 2018. The total contribution of USPS Marketing Mail Parcels declined \$4.6 million in FY 2018 to - \$30.4 million. FY 2018 ACR at 14-15.

The Postal Service states that the increase in unit revenue was driven by an increase in the average weight-per-piece, from 5.6 ounces in FY 2017 to 6.0 ounces in FY 2018. FY 2018 ACR at 15. The Postal Service further notes that the increase in unit attributable cost was driven by USPS Marketing Mail Parcels' volume trending toward more origin entry and away from finer presort levels. *Id.*

#### c. Comments on USPS Marketing Mail Parcels

The Public Representative comments on the Commission's FY 2017 ACD directive, which required the Postal Service to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels. PR Comments at 38. She notes the Postal Service's

<sup>118</sup> The Commission's cost coverage calculation differs from the Postal Service's calculation (57.5 percent) because the Commission includes fees in the revenue for each product and the Postal Service does not.

claim that it has planned improvements to USPS Marketing Mail Parcels processing but opportunities to achieve cost improvements are limited due to the product's relatively small volume. *Id.* (citing FY 2018 ACR at 17). She states that "[c]onsidering that in FY 2018, cost-per-piece increased by more than 18 percent, while in FY 2017, it increased by only 3.6 percent, [she] has doubts about the effectiveness of the Postal Service's efforts to decrease USPS Marketing Mail Parcels' unit costs." *Id.* She "strongly suggests that the Postal Service provide a detailed explanation of the reasons why [its] measures were not effective in FY 2018, as well as the list of steps it plans to take that will ensure a downward trend in cost-per-piece." *Id.* She also comments on the drivers of the increase in average weight-per-piece and suggests that the increase in the share of Nonprofit Irregular Parcels in FY 2018 may have contributed to the increase in FY 2018. *Id.* at 37. She states that she cannot conclude that the Postal Service's explanation with regard to USPS Marketing Mail Parcels is sufficient to justify noncompliance. *Id.*

d. Commission Analysis

In FY 2018, USPS Marketing Mail Parcels did not produce sufficient revenues to cover its attributable costs. The Commission has previously directed the Postal Service to utilize its intra-class pricing flexibility to eliminate the intra-class cross-subsidy for this product. FY 2010 ACD at 108. However, the cost coverage and contribution of USPS Marketing Mail Parcels has continued to decline. The Commission analyzes the Postal Service's progress in FY 2018 toward improving cost coverage for USPS Marketing Mail Parcels below. First, the Commission reviews the Postal Service's FY 2018 performance with regard to cost coverage for USPS Marketing Mail Parcels and analyzes several relevant factors that impact cost coverage. Second, the Commission reviews the Postal Service's efforts to reduce USPS Marketing Mail Parcels' unit costs. Third, the Commission analyzes the Postal Service's price adjustments for USPS Marketing Mail Parcels. Fourth, the Commission directs the Postal Service to improve this product's cost coverage and recommends a price increase of at least 2 percentage points above average in the next Market Dominant price adjustment.

(1) FY 2018 Results

In this section, the Commission first reviews trends in unit revenue, unit cost, weight and volume. Next, the Commission analyzes changes in mail mix, specifically related to worksharing. Finally, the Commission reviews classification changes and their effect on costs.

Table III-8 displays the unit revenue, unit attributable cost, unit contribution, volume, and average weight-per-piece for USPS Marketing Mail Parcels from FY 2014 through FY 2018.

**Table III-8**  
**USPS Marketing Mail Parcels Financial Comparison, FY 2014–FY 2018**

|  | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | Percent Change<br>FY 2014 to<br>FY 2018 | Percent Change<br>FY 2017 to<br>FY 2018 |
|--|---------|---------|---------|---------|---------|---|---|
| <b>Unit Revenue</b>                      | \$1.09  | \$1.09  | \$1.20  | \$1.16  | \$1.24  | 13.8%                                   | 6.9%                                    |
| <b>Unit Attributable Cost</b>            | \$1.56  | \$1.48  | \$1.86  | \$1.79  | \$2.12  | 35.9%                                   | 18.4%                                   |
| <b>Unit Contribution</b>                 | -\$0.46 | -\$0.39 | -\$0.66 | -\$0.64 | -\$0.88 | 91.3%                                   | 37.5%                                   |
| <b>Volume (thousands)</b>                | 65,846  | 60,420  | 44,767  | 40,582  | 34,650  | -47.4%                                  | -14.6%                                  |
| <b>Average Weight Per Piece (ounces)</b> | 5.60    | 5.62    | 6.13    | 5.63    | 5.97    | 6.6%                                    | 6.0%                                    |

Source: PRC–LR–ACR2018/4.

As demonstrated in Table III-8, both unit revenue and unit attributable cost for USPS Marketing Mail Parcels increased from FY 2017 to FY 2018. However, unit revenues increased 8 cents, while unit costs increased 33 cents, resulting in unit contribution decreasing 24 cents. The unit revenue increase was correlated with an increase in average weight-per-piece. Unit revenue and average weight have changed in the same direction every year except FY 2015. Therefore, because prices are higher for heavier pieces, changes in average weight-per-piece are a driver of changes in unit revenue. The Postal Service states that the effect of increases in average weight-per-piece “probably had a minimal impact on attributable costs,” because “[i]n relative terms, more origin entry and less presorting likely had much more of an effect on the increase in attributable costs, compared to a 6 percent increase in unit weight.” January 11 Responses to CHIR 1, question 19.

In response to the Postal Service assertion that more origin entry and less presorting likely effected attributable costs, the Commission reviews mail mix changes from FY 2015 through FY 2018. Table III-9 shows the relative percentages of less-workshared and more-workshared mail from FY 2015 through FY 2018.<sup>119</sup>

<sup>119</sup> Less-dropshipped includes non-dropshipped and DNDC mail. More-dropshipped includes DSCF and DDU mail. Less-Presorted includes MNDC and NDC mail. More-Presorted includes SCF and 5-Digit mail.

**Table III-9**  
**USPS Marketing Mail Parcels Workshare Comparison FY 2015–FY 2018**

|   | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---------|---------|---------|---------|
| <b>Less-Dropshipped (none and DNDC)</b> | 48.4%   | 49.9%   | 51.6%   | 58.6%   |
| <b>More-Dropshipped (DSCF and DDU)</b>  | 51.6%   | 50.1%   | 48.4%   | 41.4%   |
| <b>Less-Presorted (MNDC and NDC)</b>    | 36.5%   | 42.0%   | 41.3%   | 49.7%   |
| <b>More-Presorted (SCF and 5-Digit)</b> | 63.5%   | 58.0%   | 58.7%   | 50.3%   |

Source: PRC–LR–ACR2018/4.

As shown in Table-III-9, in each year since FY 2015, the proportions of less-dropshipped mail and less-presorted mail have increased. FY 2017 was the first year that less-dropshipped mail constituted the majority of USPS Marketing Mail Parcels, and in FY 2018 less-presorted mail made up the majority of USPS Marketing Mail Parcels. This supports the Postal Service’s claim that volume is trending toward more origin entry and away from finer presort levels. FY 2018 ACR at 15. However, it also highlights the inefficient price signals the Postal Service has sent for USPS Marketing Mail Parcels. For example, in FY 2018 the presorting passthroughs for 5-digit Machinable Parcels, 5-Digit Irregular Parcels, and 5-Digit Marketing Parcels were 34.8 percent, 17.8 percent, and 10.7 percent, respectively.<sup>120</sup> Similarly, the dropship passthroughs for Nonprofit Machinable and Irregular Parcels, and Commercial and Nonprofit Marketing Parcels, were 69.4 percent and 72.9 percent, respectively. *Id.*

As discussed previously with respect to USPS Marketing Mail Flats, the Postal Service has the ability to make pricing decisions that send price signals that incentivize mailers to workshare their mail and can directly affect mail mix changes.<sup>121</sup> With respect to USPS Marketing Mail Parcels, the Postal Service attributes the increase in unit attributable cost to USPS Marketing Mail Parcels’ volume trending toward more origin entry and away from finer presort levels. As shown in Table III-9, these trends are occurring, yet the fact that the mail mix is changing towards less presorting does not render the Postal Service without remedy to address the impact on costs. The Postal Service could mitigate the cost coverage impact of “more origin entry and less presorting” by sending efficient price signals to mailers and increasing workshare discounts so that passthroughs are closer to 100 percent.

In addition to analyzing the trends in workshared mail, the Commission reviews classification changes and their effect on costs. In FY 2012, the Commission approved the

<sup>120</sup> Library Reference USPS–FY18–3, Excel file “FY18.3 WorksharingTables.xlsx,” December 28, 2018.

<sup>121</sup> In accordance with ECP, prices are most efficient when workshare discounts are set equal to avoided costs. See Order No. 4257 at 135-136.

reclassification of some USPS Marketing Mail Parcels to the Competitive Product list.<sup>122</sup> Together, Table III-10 and Table III-11 illustrate the effect of reclassification on the financial performance of USPS Marketing Mail Parcels since FY 2012.

**Table III-10**  
**USPS Marketing Mail Parcels Commercial to Nonprofit Volume Distributions,**  
**FY 2012 and FY 2018**

|                          | FY 2012            | FY 2012<br>Distribution | FY 2018           | FY 2018<br>Distribution |
|--------------------------|--------------------|-------------------------|-------------------|-------------------------|
| <b>Commercial Volume</b> | 285,925,057        | 94.2%                   | 21,081,068        | 60.8%                   |
| <b>Nonprofit Volume</b>  | 17,633,585         | 5.8%                    | 13,568,569        | 39.2%                   |
| <b>Total Volume</b>      | <b>303,558,642</b> | <b>100.0%</b>           | <b>34,649,637</b> | <b>100.0%</b>           |

Source: PRC-LR-ACR2018/4.

Table III-10 displays the distribution of commercial and nonprofit volumes within USPS Marketing Mail Parcels for FY 2012 and FY 2018. The proportion of nonprofit mail is 6.8 times greater in FY 2018 than in FY 2012. The significance of this fact is that pursuant to the PAEA, nonprofit mail is typically priced lower than commercial mail. *See* 39 U.S.C. § 3626(a)(6). Therefore, a higher proportion of nonprofit mail typically results in lower unit revenue compared to commercial mail.

**Table III-11**  
**USPS Marketing Mail Parcels Commercial to Nonprofit FY 2018 Unit Cost Comparison**

|                               | Volume<br>(000) | Revenue<br>(000) | Unit<br>Revenue | Weight<br>per Piece<br>(ounces) | Attributable<br>Cost (000) | Unit<br>Cost | Unit<br>Contribution |
|-------------------------------|-----------------|------------------|-----------------|---------------------------------|----------------------------|--------------|----------------------|
| <b>Commercial<br/>Parcels</b> | 21,081          | 22,581           | \$1.07          | 5.61                            | 42,039                     | \$1.99       | (\$0.92)             |
| <b>Nonprofit<br/>Parcels</b>  | 13,569          | 20,404           | \$1.50          | 6.53                            | 31,390                     | \$2.31       | (\$0.81)             |
| <b>Parcels</b>                | 34,650          | 42,985           | \$1.24          | 5.97                            | 73,430                     | \$2.12       | (\$0.88)             |

Source: PRC-LR-ACR2018/4.

Table III-11 displays the unit costs, revenue, and contribution for commercial and nonprofit USPS Marketing Mail Parcels. It shows that unit cost for nonprofit mail is much higher than for commercial mail (\$2.31 compared to \$1.99). This shows that the transfer of a significant portion of commercial volume from USPS Marketing Mail Parcels to the

<sup>122</sup> On March 2, 2011, the Commission conditionally approved the Postal Service's request to transfer commercial USPS Marketing Mail Parcels to the Competitive Product list. *See* Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011 (Order No. 689). However, the Commission required a price adjustment as a condition of transfer. *See* Docket No. CP2012-2, Order Approving Changes in Rates of General Applicability for Competitive Products, December 21, 2011 (Order No. 1062). Because the new rates took effect on January 22, 2012, the data do not fully reflect the reclassification until FY 2013. *Id.* at 1.



Competitive Product list has resulted in lower revenues as nonprofit USPS Marketing Mail Parcels make up a larger percentage of the remaining volume.

(2) Cost Reduction Efforts

In the FY 2017 ACD, the Commission stated that “the Postal Service should expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels and report on those opportunities and results in the FY 2018 ACR.” FY 2017 ACD at 63. The Postal Service states that, in response to the Commission’s recommendation, it added bins on the APBS, which will likely contribute to improving parcel processing. FY 2018 ACR at 17. The Postal Service also notes that “planned improvements discussed in the Annual Report on Service Performance should contribute to the Postal Service’s ongoing efforts to improve parcel processing.” *Id.* The Postal Service explains that it has limited opportunities to achieve substantial cost improvements because of the product’s small volume. *Id.*

The Commission recognizes the limited opportunities the Postal Service has to significantly reduce costs due to the size of the product. Therefore, the Commission continues to encourage the Postal Service to explore and implement opportunities to reduce USPS Marketing Mail Parcels unit cost.

(3) Estimated Impact of Docket No. R2018-1 Price Adjustment and Other Scenarios

Next, the Commission reviews the Docket No. R2018-1 price adjustment for USPS Marketing Mail Parcels and its impact on contribution. In Docket No. R2018-1, the Commission approved a price increase for USPS Marketing Mail Parcels of 2.768 percent, which was 0.832 percentage points higher than the average price increase for the USPS Marketing Mail class of 1.936 percent.<sup>123</sup> The Postal Service states that it will continue proposing above-average price increases to improve the cost coverage for USPS Marketing Mail Parcels. FY 2018 ACR at 16.

In this year’s ACD proceeding, a CHIR was issued asking the Postal Service to provide estimates of the impact of both a 2 and a 4 percentage point above-average price increase for USPS Marketing Mail Parcels on contribution. CHIR No. 17, question 2. In response, the Postal Service estimates using FY 2018 costs<sup>124</sup> and FY 2018 price elasticities<sup>125</sup> that the Docket No. R2018-1 price change increased USPS Marketing Mail’s class-wide contribution by \$223.0 million, and USPS Marketing Mail Parcels’ contribution by \$1.22 million. *See* PRC–LR–ACR2018/4. In addition, the Postal Service estimates that if the Parcels product were to have had its price increased by a 2 percentage points above the class-average price

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<sup>123</sup> *See* Order No. 4215 at 37. Most recently, in Docket No. R2019-1, the Commission approved a price increase for USPS Marketing Mail Parcels of 2.691 percent, 0.209 percentage points higher than the average price increase for the USPS Marketing Mail class of 2.482 percent. *See* Order No. 4875 at 28.

<sup>124</sup> The Postal Service constructed various scenarios to respond to the Commission’s request. CHIR No. 17, question 2; *see e.g.*, section B.2.f.(4)(c) n.114.

<sup>125</sup> *See* Postal Service Econometric Estimates of Demand Elasticity for All Postal Products, FY 2018, January 28, 2019.

increase in Docket No. R2018-1, it would have had negligible effects on the overall contribution of the USPS Marketing Mail class because of USPS Marketing Mail Parcels' very low volume. Since increasing USPS Marketing Mail Parcels prices has little impact on price adjustments for other products within the USPS Marketing Mail class, the Commission recommends that the Postal Service more aggressively increase USPS Marketing Mail Parcels prices.

(4) FY 2018 Directive

The Commission continues to be concerned about the repeated failure of USPS Marketing Mail Parcels to cover its costs. The Commission recognizes the steps the Postal Service has taken to improve this product's cost coverage. Nevertheless, the fact remains that there is an ongoing cost coverage shortfall that has existed for a significant period of time, and the Postal Service's approach to improving cost coverage appears to be inadequate. Although the Commission has not found the rates for this product out of compliance with 39 U.S.C. § 101(d), it is monitoring the growing cost coverage shortfall.

*The Commission finds that FY 2018 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable cost. The Postal Service's approach to improving cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate, yet still inadequate. The Commission strongly recommends that the Postal Service increase USPS Marketing Mail Parcels' prices by at least 2 percentage points above the average price increase for the USPS Marketing Mail class. If the Postal Service chooses not to increase USPS Marketing Mail Parcels' prices by at least 2 percentage points above average, it must provide an estimate of the impact of the price increase it proposes on USPS Marketing Mail's class-wide contribution and USPS Marketing Mail Parcels' specific contribution, as well as the impact of a 2 percentage point above-average price increase on USPS Marketing Mail's class-wide contribution and USPS Marketing Mail Parcels' specific contribution. In addition to above-average price increases, the Postal Service should continue to expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels and report on those opportunities and results in the FY 2019 ACR.*

## 4. Stamp Fulfillment Services

The Stamp Fulfillment Services (SFS) product provides for the fulfillment of stamp orders placed by mail, phone, fax, or online to the SFS Center in Kansas City, Missouri. It was added to the *Mail Classification Schedule* as a Market Dominant product in FY 2010. Cost has exceeded revenue and, consequently, cost coverage has been below 100 percent each year since its introduction. Cost coverage showed steady improvement each year through FY 2017. See Table III-12. However, in FY 2018, cost coverage declined to 87.4 percent.

**Table III-12**  
**SFS Cost Coverage, FY 2014–FY 2018**

| <b>Fiscal Year</b> | <b>Revenue<br/>(in Millions)</b> | <b>Attributable Cost<br/>(in Millions)</b> | <b>Cost Coverage</b> |
|--------------------|----------------------------------|--|----------------------|
| FY 2014            | \$3.5                            | \$4.3                                      | 82.3%                |
| FY 2015            | \$3.9                            | \$4.6                                      | 85.1%                |
| FY 2016            | \$3.7                            | \$4.3                                      | 87.3%                |
| FY 2017            | \$3.9                            | \$4.0                                      | 97.2%                |
| FY 2018            | \$3.9                            | \$4.4                                      | 87.4%                |

Source: PRC–LR–ACR2018/7.

The Postal Service attributes the decline in cost coverage to a cost increase of about \$0.4 million. FY 2018 ACR at 41-42. The Postal Service states that the 3.5 percent price increase for SFS, recently approved by the Commission in Docket No. R2019-1, is an effort to improve the cost coverage. *Id.* at 42. The Postal Service states that the higher than average increase is consistent with the Commission’s comments in the FY 2012 ACD, stating that the SFS product “promotes the objectives of reducing costs and increasing efficiency.” *Id.* (quoting FY 2012 ACD at 142).

*The Commission finds that FY 2018 revenue for SFS was not sufficient to cover attributable cost. However, the financial performance of SFS does not entirely capture the value that the Services Center adds to the Postal Service and to other Postal Service products. Although SFS does not cover its attributable cost, by providing a mechanism for the centralized ordering of stamps, it reduces the costs associated with the retail purchases of stamps. The Commission urges the Postal Service to continue its efforts to improve cost coverage for SFS.*

## 5. Market Dominant International Mail

Market Dominant international mail is comprised of nine products: Inbound Letter Post, Outbound Single-Piece First-Class Mail International, International Ancillary Services, International Reply Coupon Service, International Business Reply Mail Service, Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1, Inbound Market Dominant Exprès Service Agreement 1, Inbound Market Dominant Registered Service Agreement 1, and Inbound Market Dominant PRIME Tracked Service Agreement.

In FY 2018, Inbound Letter Post and International Registered Mail, a component of International Ancillary Services, did not cover their attributable costs.

a. New Methodology to Distribute International Revenue  
(1) Background

The Postal Service uses a new methodology to distribute the revenues received from inbound LC/AO<sup>126</sup> mail, reported as the Inbound Letter Post and Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 products. In the FY 2017 ACD, the Commission directed the Postal Service to update the Commission on the status of the Postal Service's investigation of a shape-based costing methodology for inbound LC/AO mail. FY 2017 ACD at 69. In Docket No. RM2018-8, the Postal Service requested approval of a shape-based costing methodology for inbound LC/AO mail.<sup>127</sup> The Postal Service proposed to distribute the revenue it receives from inbound LC/AO dispatches to the shapes of the underlying pieces (letters, flats, and small packets/bulky letters). Order No. 4827 at 8. Specifically, the Postal Service proposed to distribute revenue for each dispatch proportionally based on the weight of each shape in the dispatch. *Id.* The Commission approved this methodology, but directed the Postal Service to investigate improving the revenue distribution by using both piece and weight data, and to provide an update of its investigation in the FY 2018 ACR. *Id.* at 16-18.

The Postal Service investigated this approach, and instead of applying the methodology approved by the Commission in Order No. 4827, it incorporated a new revenue distribution methodology that uses both piece and weight data in the ICRA report for its FY 2018 ACR. FY 2018 ACR at 11-12. For those dispatches that pay only a per-kilogram price, revenue is distributed to shapes based solely on weight. January 11 Response to CHIR No. 1, question 4. For those dispatches for which both per-item and per-kilogram prices were paid and were received prior to February 2018, the Postal Service first calculates per-kilogram revenue based on per-kilogram price and distributes that revenue to shapes based on the weight distribution. *Id.*; see Responses to CHIR No. 6, question 17. The Postal Service then subtracts per-kilogram revenue from total revenue to estimate per-item revenue, and distributes per-item revenue to shapes based on the distribution of each shape in the dispatch. *Id.* For those dispatches that pay both per-item and per-kilogram prices and were received after February 2018, per-item revenue and per-kilogram revenue are calculated separately and distributed in the manner described above. *Id.*

(2) Commission Analysis

The methodology the Postal Service uses to distribute revenue for inbound LC/AO mail appears to improve the accuracy of the revenue estimates. However, the Commission did not previously approve this new methodology. Accordingly, although the Commission uses this methodology for assessing compliance in this ACD, the methodology must be

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<sup>126</sup> LC/AO is an abbreviation for "lettres et cartes" and "autres objets," and is French for "letters and cards" and "other objects." LC/AO refers to international letters, cards, flats, bulky letters, and small packets, whether under the Universal Postal Union (UPU) terminal dues system or bilateral or multilateral agreements. Inbound LC/AO contrasts with Inbound Letter Post, which refers to the Postal Service product consisting of letters, cards, flats, bulky letters, and small packets received under the terminal dues system. See *Mail Classification Schedule* (MCS), Section 1130.

<sup>127</sup> Order No. 4827.

thoroughly reviewed by the Commission and stakeholders through a docketed proceeding before it can be used in future ACRs.

*For purposes of this ACD, the Commission accepts the Postal Service's revenue distribution for inbound LC/AO mail. The Commission concludes however, that this is a change in analytical principles that the Commission has not approved and directs the Postal Service to file a petition for the initiation of a proceeding to consider this proposed change in analytical principles within 90 days of issuance of this ACD.*

b. Inbound Letter Post

(1) Background

Inbound Letter Post consists of inbound mail for which foreign postal operators reimburse the Postal Service at terminal dues for the delivery of foreign-origin mail.<sup>128</sup> Terminal dues are prices set by the Universal Postal Union (UPU).<sup>129</sup>

The Commission reviews the compliance of the Inbound Letter Post product on an annual basis. The Inbound Letter Post product has never covered its cost, and the Commission has consistently recommended the Postal Service take actions to improve the profitability of this product.

On August 23, 2018, President Donald J. Trump issued a presidential memorandum with the subject title Modernizing the Monetary Reimbursement Model for the Delivery of Goods Through the International Postal System and Enhancing the Security and Safety of

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<sup>128</sup> *Mail Classification Schedule*, Section 1130. The Inbound Letter Post product refers to international mail that is not classified as Parcel Post or express mail (EMS and Global Express Guaranteed). It consists of mail items similar to domestic First-Class Mail, Periodicals, USPS Marketing Mail, BPM Flats/Parcels, and Media Mail/Library Mail, weighing up to 4.4 pounds (2 kilograms). All Inbound Letter Post mail is inbound LC/AO mail.

<sup>129</sup> The UPU is a United Nations specialized agency comprising 192 member countries, including the United States. Member countries negotiate international agreements governing the exchange of international mail, including applicable rates for the delivery of international mail. Terminal dues are also referred to as default UPU default rates, because they apply in the absence of an agreement between or among postal operators establishing other rates.

International Mail.<sup>130</sup> Specifically, the memorandum noted that the current terminal dues do not fully reimburse the Postal Service for the cost of delivering foreign-origin mail. Presidential Memorandum at section 2(c)(i)(A). Additionally, the Presidential Memorandum noted that the “current terminal dues rates undermine the goal of unrestricted and undistorted competition in cross-border delivery services because they disadvantage non-postal operators seeking to offer competing collection and outward transportation services for goods covered by terminal dues in foreign markets.”<sup>131</sup>

The Presidential Memorandum then outlined policies relating to inbound international mail and terminal dues. Specifically, the Presidential Memorandum stated that it is the policy of the executive branch to support “a system of unrestricted and undistorted competition between the United States and foreign merchants. Such efforts include: (i) ensuring that rates for the delivery of foreign-origin mail containing goods do not favor foreign mailers over domestic mailers; [and] (ii) setting rates charged for delivery of foreign-origin mail in a manner that does not favor postal operators over non-postal operators[.]” *Id.*, section 2(d).

On October 17, 2018, in a statement from the White House Press Secretary, President Donald J. Trump concurred “with the Department of State’s recommendation to adopt self-declared rates for terminal dues as soon as practical, but no later than January 1, 2020.”<sup>132</sup> The Department of State also filed notice of the withdrawal of the United States from the UPU in one year, as set forth in the UPU Constitution. *See id.* The President instructed the Department of State to “negotiate bilateral and multilateral agreements that resolve the problems discussed in the Presidential Memorandum. If negotiations are successful, the Administration is prepared to rescind the notice of withdrawal and remain in the UPU.” *Id.*

The Postal Service states that it is working with the Administration to move to a system of self-declared rates for Inbound Letter Post mail. FY 2018 ACR at 10.

## (2) FY 2018 Financial Results

In FY 2018, revenue for Inbound Letter Post did not cover attributable cost. Cost coverage increased from 67.2 percent in FY 2017 to 83.8 percent in FY 2018.<sup>133</sup> Total contribution

<sup>130</sup> Presidential Memorandum for the Secretary of State, Secretary of the Treasury, Secretary of Homeland Security, Postmaster General, and Chairman of the Postal Regulatory Commission, August 23, 2018 (Presidential Memorandum) (available at: <https://www.whitehouse.gov/presidential-actions/presidential-memorandum-secretary-state-secretary-treasury-secretary-homeland-security-postmaster-general-chairman-postal-regulatory-commission/>).

<sup>131</sup> Presidential Memorandum, section 2(c)(i)(B). The Presidential Memorandum defines “postal operator” to mean a “governmental or non-governmental entity officially designated by a [UPU] member country to operate postal services and to fulfill the related obligations arising out of the Acts of the UPU on its territory.” *Id.*, section 1(c). It also defines “non-postal operator” to mean a “private express carrier, freight forwarder, or other provider of services for the collection, transportation, and delivery of international documents and packages, other than a postal operator.” *Id.*, section 1(b).

<sup>132</sup> Statement from the Press Secretary, October 17, 2018 (available at: <https://www.whitehouse.gov/briefings-statements/statement-press-secretary-38/>).

<sup>133</sup> Response to Chairman’s Information Request 20, March 4, 2019, question 1 (Response to CHIR No. 20); FY 2018 ACR at 9.

increased from negative \$143 million in FY 2017 to negative \$81.7 million in FY 2018.<sup>134</sup>

The Postal Service notes that Inbound Letter Post covered a greater proportion of its attributable costs in FY 2018 than in previous fiscal years. FY 2018 ACR at 10. The Postal Service attributes the product's financial performance to its "unique pricing regime," as it has in past years. *Id.* The Postal Service states that it "does not independently determine the prices [paid by foreign postal operators] for processing and delivery of foreign origin mail" in the United States. *Id.* The Postal Service explains that these prices are set according to a UPU terminal dues formula established in the Universal Postal Convention. *Id.* The Postal Service states that the January 2018 and January 2019 increases in terminal dues should improve cost coverage for Inbound Letter Post in FY 2019. *Id.* Additionally, the Postal Service notes that it has been collaborating with other federal agencies, including the Department of State, to improve cost coverage for Inbound Letter Post, and that it is working to "move to a pricing regime of self-declared rates for Inbound Letter Post[.]" *Id.*

The Postal Service also states that if all revenue flows related to inbound LC/AO mail<sup>135</sup> were considered, then inbound LC/AO mail would cover its attributable costs. *Id.* at 11. The Postal Service states that revenues from Inbound Letter Post, International Registered Mail, the PRIME Exprès Service Agreement, the PRIME Tracked Service Agreement, the PRIME Registered Service Agreement, and the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 products collectively would cover costs.<sup>136</sup>

### (3) Comments on Inbound Letter Post

The Small Business & Entrepreneurship Council (SBE Council) and the Public Representative commented on Inbound Letter Post. The SBE Council expresses concern regarding the Postal Service's "below-cost pricing" for Inbound Letter Post.<sup>137</sup> The SBE Council states that it is "fundamentally unfair and irrational that foreign mailers continue to be charged far lower rates by the [Postal Service] to complete deliveries within the U.S. in comparison to the prices that American businesses face to send items from one domestic location to another." *Id.* The SBE Council calls on the Commission to seek appropriate remedies, which include "imploring that the [Postal Service] work in close coordination with the Secretary of State to ensure a non-discriminatory pricing system that will provide domestic sellers a level playing field in reaching domestic consumers." *Id.*

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<sup>134</sup> Response to CHIR No. 20, question 1; PRC-LR-ACR2018/1 Excel file "18 Summary\_LR1.xlsx," tab "FCM\_Fees," cell H56. The Postal Service notes that a change in costing methodology resulted in different estimates for contribution for FY 2017, which the Postal Service filed under seal in Docket No. RM2018-8. *See* Response to CHIR No. 20, question 1. In its Response to CHIR No. 20, the Postal Service publicly filed updated FY 2017 data for Inbound Letter Post that applied the approved costing methodology. *Id.*

<sup>135</sup> The Postal Service uses the term "Inbound Letter Post" interchangeably to refer to both the Inbound Letter Post product and to all inbound LC/AO mail, including inbound LC/AO mail not entered at terminal dues.

<sup>136</sup> *Id.* The Postal Service cites a table that it provided in Library Reference USPS-FY18-NP9 as supporting the statement that all revenue flows related to inbound LC/AO mail would cover inbound LC/AO costs. *Id.*

<sup>137</sup> Comments of Small Business & Entrepreneurship Council, January 31, 2019, at 2 (SBE Council Comments).

The Public Representative notes that Inbound Letter Post cost coverage increased to 83.8 percent in FY 2018, which is higher than the product's cost coverage in FY 2017. PR Comments at 29-30. She states that this cost coverage is a marked improvement over recent fiscal years and is at its highest level since FY 2011. *Id.* at 30.

The Public Representative notes that terminal dues increased in January 2018 and suggests that, although the new prices did not bring the product into compliance, the progressive price increases and continued implementation of the new costing methodology should bring Inbound Letter Post cost coverage closer to 100 percent. *Id.* at 33.

The Postal Service states that it has taken action to address issues related to the Inbound Letter Post product. Postal Service Reply Comments at 7. Specifically, the Postal Service notes that it requested a transfer of Inbound Letter Post small packets and bulky letters from the Market Dominant Inbound Letter Post product to the Competitive Product list, "as a precursor to establishing self-declared rates" for Inbound Letter Post small packets and bulky letters. *Id.* The Postal Service states that it is developing a proposal for self-declared rates for Inbound Letter Post small packets and bulky letters, which will improve the pricing regime for Inbound Letter Post. *Id.*

#### (4) Commission Analysis

The Commission acknowledges the increase in cost coverage for Inbound Letter Post from 67.15 percent in FY 2017 to 83.78 percent in FY 2018.<sup>138</sup> The Commission further acknowledges the 42.8 percent improvement in contribution from negative \$143 million in FY 2017 to negative \$81.7 million in FY 2018.<sup>139</sup> These improvements are in large part due to higher terminal dues that were in effect during Quarters 2-4 of FY 2018. However, despite these improvements, Inbound Letter Post continues to be noncompensatory.

In Order No. 4980, the Commission conditionally approved the transfer of Inbound Letter Post small packets and bulky letters from the Market Dominant Inbound Letter Post product to the Inbound Letter Post Small Packets and Bulky Letters product on the Competitive Product list pending the proposal, review, approval, and implementation of new prices.<sup>140</sup> Removal of small packets and bulky letters from the Inbound Letter Post product should improve the financial performance of the Inbound Letter Post product. Additionally, the terminal dues increases that went into effect in January 2019 should also improve Inbound Letter Post cost coverage. The extent of any further improvement in cost coverage will depend on Inbound Letter Post quality of service, which is linked to terminal dues; changes in costs; and Special Drawing Right (SDR)/U.S. dollar exchange rate fluctuations.<sup>141</sup>

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<sup>138</sup> Response to CHIR No. 20, question 1; PRC-LR-ACR2018/1, Excel file "18 Summary\_LR1.xlsx," tab "FCM\_Fees," cell L56.

<sup>139</sup> Responses to CHIR No. 6, question 1; PRC-LR-ACR2018/1, Excel file "18 Summary\_LR1.xlsx," tab "FCM\_Fees," cell H56.

<sup>140</sup> Docket No. MC2019-17, Order Conditionally Approving Transfer, January 9, 2019, at 22-23 (Order No. 4980).

<sup>141</sup> A SDR is a reserve asset that the International Monetary Fund (IMF) created to serve as a unit of account for the IMF and some international organizations, including the UPU. Its value is based on a basket of five major currencies: the U.S. dollar, the Euro, the Chinese renminbi, the



The Commission reiterates its concern regarding the UPU pricing regime that results in noncompensatory terminal dues. FY 2017 ACD at 68; FY 2016 ACD at 66. The Commission also reiterates its concern that domestic mailers are subsidizing the entry of Inbound Letter Post by foreign postal operators who use the same postal infrastructure but bear none of the burden of contributing to its institutional costs. *Id.* Because UPU terminal dues are not equivalent to domestic postage rates in the destination country, the Commission considers them discriminatory. *See id.* Copenhagen Economics quantified the impact of the UPU terminal dues negotiated at the 2016 UPU Congress that took effect in January 2018.<sup>142</sup> It concluded that these rates would result in a global net financial transfer among designated postal operators that ranges from 2.1 billion to 2.4 billion SDR in 2018 to 2.8 billion to 4 billion SDR in 2021.<sup>143</sup>

Furthermore, the Commission notes that terminal dues are only available to designated operators,<sup>144</sup> and that non-designated operators that provide similar international mailing services to Inbound Letter Post are not able to access these terminal dues for inbound mailpieces to the United States. The Commission recommends that as the Postal Service works with the Administration to move towards a system of self-declared rates, it ensures that self-declared rates are consistent with all statutory requirements of 39 U.S.C. § 3633(a) and policies outlined in the Presidential Memorandum, including that the self-declared rates do not favor designated operators over non-designated operators.

*The Commission finds that FY 2018 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission recommends that the Postal Service, in coordination with the Department of State, negotiate bilateral and multilateral agreements that contain rates for UPU letter post mail that are more compensatory than terminal dues. The Commission further recommends that the Postal Service file rates for the Competitive Inbound Small Packets and Bulky Letters product as soon as possible.*

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Japanese yen, and the British pound sterling. On March 4, 2019, the IMF exchange rate for one SDR was \$1.3922 U.S. dollars (available at: [http://www.imf.org/external/np/fin/data/rms\\_five.aspx](http://www.imf.org/external/np/fin/data/rms_five.aspx)).

<sup>142</sup> See Copenhagen Economics, Terminal Dues: Impact on financial transfers among designated postal operators of the Universal Postal Union 2018-2021 cycle agreements, September 22, 2017 (available at: [https://www.prc.gov/sites/default/files/reports/Terminal%20Dues\\_Impact%20on%20financial%20transfers\\_FINAL%2022%20September%202017.pdf](https://www.prc.gov/sites/default/files/reports/Terminal%20Dues_Impact%20on%20financial%20transfers_FINAL%2022%20September%202017.pdf)).

<sup>143</sup> A global net financial transfer is the difference between the actual compensation that designated postal operators receive from delivering inbound cross-border letter mail at UPU terminal dues and the compensation that they would require in a situation without the UPU terminal dues system in place (*i.e.*, domestic postage rates).

<sup>144</sup> Designated operators are “any governmental or non-governmental entity officially designated by the member country to operate postal services and to fulfill the related obligations arising out of the Acts of the [Universal Postal Union] on its territory.” Convention Manual, Article 1.12, 2018 (available at: [http://www.upu.int/uploads/tx\\_sdownload/actManualsInThreeVolumesConventionManualEn.pdf](http://www.upu.int/uploads/tx_sdownload/actManualsInThreeVolumesConventionManualEn.pdf)).

c. Quality of Service Link to UPU Terminal Dues  
(1) Background

The Postal Service did not maximize revenue for Inbound Letter Post in FY 2018. Under the UPU Quality Link Measurement System (QLMS), terminal dues can be adjusted downward if the Postal Service does not achieve the UPU-established annual service performance target; they can also be adjusted upward if the Postal Service achieves or exceeds the target.<sup>145</sup> In FY 2018, the Postal Service did not achieve the annual target.<sup>146</sup> The Postal Service also reported the amount of its forfeited revenue due to not meeting the UPU service performance target.<sup>147</sup> Based on the Calendar Year (CY) 2018 service performance results available to date, the Postal Service's service performance for Inbound Letter Post under QLMS decreased from CY 2017 and the amount of forfeited revenue increased.<sup>148</sup>

In CY 2018, nine UPU members began participating in the Quality of Service Link, including: Belarus, Bosnia and Herzegovina, China, Kazakhstan, Lebanon, Malaysia, Russia, Thailand, and Turkey.<sup>149</sup> The Postal Service states that inbound mail volume from these countries "often arrives with improper format separation[.]" which "often results in delays, especially where packets are processed in different facilities from letters and flats."<sup>150</sup> The Postal Service states that it is attempting to mitigate the impact of improper format separation by reporting these issues to the transgressing posts for correction and by having International Service Centers (ISC) personnel separate formats prior to offloading the sacks for processing.<sup>151</sup>

The Postal Service detailed various steps it is taking to improve its service performance for Inbound Letter Post in its FY 2018 Service Performance Report.<sup>152</sup> These steps include: "regular communications with key ISC personnel[.]" individual ISC projects and initiatives to improve performance; and a Black Belt Lean Six Sigma project to improve inbound international letter performance.<sup>153</sup>

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<sup>145</sup> Responses of the United States Postal Service to Questions 1-10 of Chairman's Information Request No. 14, February 22, 2019, question 9, Revised Response of the United States Postal Service to Chairman's Information Request No. 1, question 5 (Responses to CHIR No. 14).

<sup>146</sup> *Id.* See Library Reference USPS-FY18-NP32, January 11, 2019, file "USPS-FY18-NP32.Preface.pdf;" Library Reference USPS-FY18-NP37, February 8, 2019, file "USPS-FY18-NP37.Q20ChIR6.Preface.pdf."

<sup>147</sup> USPS-FY18-NP32, file "USPS-FY18-NP32.Preface.pdf;" USPS-FY18-NP37, file "USPS-FY18-NP37.Q20ChIR6.Preface.pdf."

<sup>148</sup> See USPS-FY18-NP32, file "USPS-FY18-NP32.Preface.pdf;" USPS-FY18-NP37, file "USPS-FY18-NP37.Q20ChIR6.Preface.pdf."

<sup>149</sup> Universal Postal Union, UPU QS Link – participation 2018 (available at: <http://www.upu.int/fileadmin/documentsFiles/activities/letterPostDevelopment/participationQlugEn.pdf>).

<sup>150</sup> Responses to CHIR No. 14, question 9, Revised Response of the United States Postal Service to Chairman's Information Request No. 3, question 14.

<sup>151</sup> Responses to CHIR No. 14, question 9, Revised Response of the United States Postal Service to Chairman's Information Request No. 7, question 2.

<sup>152</sup> Library Reference USPS-FY18-29, December 28, 2018, file "FY18-29 Service Performance Report.pdf," at 8. See January 28 Responses to CHIR No. 3, question 16.

<sup>153</sup> USPS-FY18-29, file "FY18-29 Service Performance Report.pdf," at 8; January 28 Responses to CHIR No. 3, question 16.

## (2) Commission Analysis

The Commission concludes that the Postal Service's service performance for Inbound Letter Post declined in FY 2018. As a result of decreased service performance and increased Inbound Letter Post volume in FY 2018, the Postal Service forfeited more revenue than in FY 2017 for not meeting the UPU service performance target.

The Postal Service states that it is taking steps to address its declining service performance for Inbound Letter Post mailpieces. These steps include increased coordination between ISCs and headquarters and optimizing placement of radio-frequency identification readers to better track the movement of mail and identify points of failure in the system.<sup>154</sup> The Postal Service is also reviewing inbound mail flows to "identify potential opportunities for delays, rework, or other inefficiencies[, and] will devise solutions to eliminate these inefficiencies, pilot them, and review results." January 28 Responses to CHIR No. 3, question 16.b.

However, the steps outlined by the Postal Service do not appear to address the issue that large volumes of inbound mailpieces are not properly separated by format by the dispatching postal operator, which the Postal Service cites as the cause for the decline in service performance.

*The Commission directs the Postal Service to provide both International Mail Measurement System (IMMS) and QLMS CY 2018 and CY 2019 performance reports for Inbound Letter Post, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve service performance in the FY 2019 ACR. The Commission also directs the Postal Service to state in its FY 2019 ACR whether it forfeited revenue in CY 2018 and CY 2019 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2018 and CY 2019, the Commission directs the Postal Service to provide the forfeited amounts for CY 2018 and for CY 2019 based on all results available to date and explain how this amount is calculated based on service performance results.*

### d. Inbound Letter Post Data Required by 39 C.F.R. § 3050.21(l)

#### (1) Background

In Docket No. RM2018-2, the Commission revised its periodic reporting requirements codified in 39 C.F.R. part 3050.<sup>155</sup> These revised annual reporting rules require the Postal Service to provide Inbound Letter Post revenue, volume, attributable cost, and contribution data by UPU country group and by shape. Order No. 4836 at 13, 29; *see* 39 C.F.R. § 3050.21(l). The Postal Service filed the newly required Inbound Letter Post data by UPU country group and by shape for FY 2017 and FY 2018 and provided Inbound Letter Post

<sup>154</sup> USPS–FY18–29, file "FY18-29 Service Performance Report.pdf," at 8; January 28 Responses to CHIR No. 3, question 16.

<sup>155</sup> Docket No. RM2018-2, Order Amending Rules for Periodic Reporting, September 25, 2018, at 1 (Order No. 4836).

data by UPU country group for FY 2014, FY 2015, and FY 2016 under seal in USPS–FY18–NP9.<sup>156</sup>

## (2) Comments

UPS observes that, in Docket No. RM2018-2, the Commission did not specify that the Postal Service publicly file newly required Inbound Letter Post revenue, volume, attributable cost, and contribution data by UPU country group and by shape and that the Postal Service chose to report this data under seal.<sup>157</sup> UPS Comments at 18. UPS asserts that there is “nothing competitively sensitive about the top-line, aggregated revenue, volume, attributable cost, and contribution data for Inbound Letter [P]ost.” *Id.* (internal quotation marks omitted). UPS notes that some “‘country group’ data may indirectly disclose data regarding the Postal Service’s international partners.” *Id.* UPS states that such data should be aggregated to the extent there is “a legitimate confidentiality concern and then disclosed.” *Id.* UPS asserts that it is prepared to submit a motion to unseal such data pursuant to 39 C.F.R. § 3007.400 if necessary. *Id.* at 18-19. In addition, UPS requests that “the Commission review the Postal Service’s non-public treatment of international competitive data, and order the Postal Service to disclose its international competitive data to the extent that it does not meet the Commission’s standards for non-public treatment[.]” *Id.* at 19.

In its reply comments, the Postal Service states that to the extent that “‘top-line, aggregated’ revenue, volume, cost, and contribution” data have been publicly reported in the CRA report, the Postal Service does not disagree that there is nothing commercially sensitive about that data. Postal Service Reply Comments to UPS and PostCom at 5. The Postal Service contends that UPS concedes that Inbound Letter Post data aggregated by country group may result in potentially harmful disclosure regarding international partners. *Id.* The Postal Service states that this concern is magnified now that Inbound Letter Post small packets and bulky letters have been conditionally transferred from Market Dominant to Competitive Product lists. *Id.*

## (3) Commission Analysis

When issuing the new periodic reporting rules in Order No. 4836, the Commission did not direct the Postal Service to file the aggregated Inbound Letter Post revenue, volume, attributable cost, and contribution data publicly. *See* Order No. 4836 at 21. Instead, the Commission stated that “[t]o the extent that the Postal Service believes that public disclosure of Inbound Letter Post data separated by UPU country group and shape would cause a commercial harm, [the Postal Service] could file an application for non-public treatment pursuant to [39 C.F.R.] §§ 3007.200 and 3007.201[.]” *Id.* The Commission also

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<sup>156</sup> FY 2018 ACR at 12. On December 13, 2018, the Postal Service filed a motion requesting a partial waiver of 39 C.F.R. § 3050.21(l). Motion of the United States Postal Service for Partial Waiver of Rule 3050.21(l) Regarding Inbound Shape Data, December 13, 2018. The Postal Service requested a partial waiver of the requirement to report Inbound Letter Post revenue, volume, attributable costs, and contribution data by shape for fiscal years prior to FY 2017 as the Postal Service asserted that such data was unavailable. *Id.* at 1. The Commission granted the Postal Service’s motion. Order Granting Partial Waiver, December 21, 2018, at 1-2 (Order No. 4943).

<sup>157</sup> Initial Comments of United Parcel Service, Inc. on United States Postal Service’s Annual Compliance Report for Fiscal Year 2018, February 19, 2019, at 18 (UPS Comments).

noted that, if the Postal Service filed the required data under seal, there are procedures in place for participants or the Commission to unseal material filed non-publicly by the Postal Service. *Id.*; see 39 C.F.R. §§ 3007.103, 3007.104, 3007.400. The Commission stated that it “will address the non-public status of data filed under [39 C.F.R. § 3050.21(l)], if and when the Postal Service files the data under seal and if the Commission issues a preliminary determination concerning the appropriate degree of protection, if any, to be accorded to the materials filed under seal.” *Id.*

As part of the ACD, the Commission analyzes the Inbound Letter Post revenue, volume, attributable cost, and contribution data, by UPU country group and by shape, in Library Reference PRC–LR–ACR2018/NP3. The Commission’s library reference modifies the data provided in USPS–FY18–NP9 to exclude data for international mail products other than the Inbound Letter Post product, such as Inbound International Registered Mail and Market Dominant NSAs.<sup>158</sup> In addition, PRC–LR–ACR2018/NP3 also includes product-specific costs in addition to the volume variable costs the Postal Service provided to determine attributable costs for Inbound Letter Post. The Commission’s analysis identifies some trends specific to certain shapes and for mailpieces originating from specific UPU country groups.

Because the Postal Service filed the underlying data under seal, the Commission files both the Inbound Letter Post data and the analysis contained in PRC–LR–ACR2018/NP3 under seal. However, concurrent with the FY 2018 ACD, the Commission is issuing a preliminary determination to unseal its analysis and PRC–LR–ACR2018/NP3.<sup>159</sup>

e. International Ancillary Services

(1) Background

International Ancillary Services consists of International Certificate of Mailing, International Registered Mail, International Return Receipt, and Customs Clearance and Delivery Fee. *Mail Classification Schedule*, Section 1510. In FY 2018, the International Ancillary Services product as a whole covered its attributable cost. FY 2018 ACR at 41. However, one component of the product, International Registered Mail, did not cover its attributable cost.

The Postal Service states that International Registered Mail did not cover its costs “by a small amount.” FY 2018 ACR at 43. The Postal Service also states that the additional payment per item for Inbound International Registered Mail increased from 0.69 SDR to 1.10 SDR in CY 2018 and to 1.20 SDR in CY 2019, which should help to improve cost

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<sup>158</sup> The Postal Service revised the data it provided in USPS–FY18–NP9 to exclude M-Bag data. Responses to CHIR No. 3, question 13; see Library Reference USPS–FY18–NP34, January 28, 2019, Excel file “CHIR.3.Q.13 IB LP Shape.Group.FY18.xlsx,” tab “Summary.”

<sup>159</sup> Notice of a Preliminary Determination to Unseal Library Reference PRC–LR–ACR2018/NP3, April 12, 2019 (Order No. 5055).

coverage. *Id.* The Postal Service also points out that the pre-UPU Istanbul Congress rates were in effect during the first quarter of FY 2018.<sup>160</sup>

The Postal Service notes that its participation in the voluntary supplementary remuneration for inbound registered items furnished additional revenue for inbound registered items. FY 2018 ACR at 43. The Postal Service further notes that, during FY 2018, additional foreign postal operators became parties to the Inbound Market Dominant Registered Service Agreement 1 multilateral agreement. *Id.*

## (2) Comments

Only the Public Representative commented on International Ancillary Services. In her comments, she notes that the International Ancillary Services product as a whole covered its attributable cost, although the cost coverage for International Registered Mail within International Ancillary Services was below cost. PR Comments at 52. She highlights that the cost coverage for International Registered Mail increased in FY 2018, and that a 64.2 percent price increase for International Registered Mail, which went into effect in January 2018, significantly contributed to this improved cost coverage. *Id.* at 53-54.

The Public Representative opines that the Postal Service's strategy to help International Registered Mail cover its costs, which is identical to the Postal Service's strategy in FY 2016 and FY 2017, may now be working to some extent because International Ancillary Services is in compliance in FY 2018 even though International Registered Mail's cost coverage was below 100 percent.<sup>161</sup> She finds that the Postal Service's strategy is reasonable due to International Registered Mail's positive movement toward compliance. *Id.*

The Public Representative also notes that, in the FY 2017 ACD, the Commission recommended that the Postal Service identify and implement ways to reduce costs for International Registered Mail and observes that the product cost remained roughly consistent in FY 2018, while revenue increased significantly. *Id.* at 54.

## (3) Commission Analysis

The Commission finds that the International Ancillary Services product was compensatory in FY 2018. It also finds that although the cost coverage for the International Registered Mail component of International Ancillary Services improved significantly over FY 2017, it remains noncompensatory. However, unlike in FY 2017, the noncompensatory nature of International Registered Mail did not result in negative cost coverage for the International Ancillary Services product as a whole.

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<sup>160</sup> *Id.* The UPU rate for Inbound International Registered Mail in effect during 2017 was 0.67 SDR. See Universal Postal Convention Doha 2012, Article 29.8 (available at: [http://www.upu.int/uploads/tx\\_sbdownloader/act2012DecisionsDohaEn.pdf](http://www.upu.int/uploads/tx_sbdownloader/act2012DecisionsDohaEn.pdf)).

<sup>161</sup> *Id.* at 53. This strategy includes the scheduled price increase for International Registered Mail in January 2019; the Postal Service's participation in the voluntary supplementary remuneration for inbound registered items; and the increased number of foreign postal operators participating in the Inbound Market Dominant Registered Service Agreement 1. *Id.*

The improvement in cost coverage for International Registered Mail is due, in part, to a price increase for Inbound International Registered Mail from 0.67 SDR to 1.10 SDR, which went into effect in January 2018. FY 2018 ACR at 43. The Commission notes that Inbound International Registered Mail prices increased again, to 1.20 SDR, in January 2019. *Id.* This price increase should help to improve the cost coverage of International Registered Mail in FY 2019.

Previously, the Commission recommended that the Postal Service identify and implement ways to reduce costs for International Registered Mail. FY 2017 ACD at 73. The Commission notes that International Registered Mail costs slightly increased in FY 2018. The Commission also observes that the costs for this product are somewhat volatile. The Postal Service recorded 104 In-Office Cost System (IOCS) tallies for Inbound International Registered Mail in FY 2018, and the cost coverage range is 24 percentage points below and 45 percentage points above the cost coverage provided by the Postal Service in the ACR. Responses to CHIR No. 17, question 6.

*The Commission urges the Postal Service to continue efforts to limit cost increases for International Registered Mail and to promote greater participation by foreign postal operators in the Inbound Market Dominant Registered Service Agreement 1, which provides more compensatory prices for registered mail services for inbound mailpieces from participating foreign postal operators.*

## 6. Customized Postage

The Postal Service initially reported zero revenue for Customized Postage in FY 2018, and \$72,241 in cost.<sup>162</sup> The Postal Service attributed the lack of revenue to the fact that there is only one Customized Postage vendor. January 28 Responses to CHIR No. 3, question 1. The Postal Service stated that it planned to prepare a revised authorization for its Customized Postage vendor, and collect applicable fees sufficient to cover costs for the years 2018 and 2019. *Id.* The Public Representative noted that cost coverage for Customized Postage was 1,353 percent in FY 2017, suggesting that the Postal Service's claims were "likely correct."<sup>163</sup>

The Postal Service subsequently updated its FY 2018 Customized Postage revenue, stating that it received a payment of \$325,000, covering the period May 2018 to May 2019. Responses to CHIR No. 22, question 1. The Postal Service reports Customized Postage revenue for FY 2018 as \$121,875, or 168.7 percent cost coverage.<sup>164</sup>

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<sup>162</sup> Library Reference USPS-FY18-1, December 28, 2018 (PCRA).

<sup>163</sup> PR Comments at 55 (citing Docket No. ACR2017-1, Library Reference PRC-LR-ACR2017/1, March 29, 2018, Excel file "17 Summary\_LR1.xlsx," tab "MD Services\_Fees.").

<sup>164</sup> Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 22, March 13, 2019, question 1.

*The Commission finds that FY 2018 revenue for Customized Postage was sufficient to cover attributable cost for the product. The Commission directs the Postal Service to continue to report Customized Postage revenue for the fiscal year covered by the ACR.*

## 7. Stamped Envelopes

The Stamped Envelopes product is an Ancillary Service that consists of both Plain and Personalized Stamped Envelopes with imprinted or impressed First-Class Mail postage. In FY 2016, revenue for Stamped Envelopes failed to cover attributable cost. FY 2016 ACD at 63. The Postal Service stated that the reason for failure to cover cost was that the reported revenue did not include the Personalized Stamped Envelopes premium option or shipping fees revenue. FY 2016 ACR at 64. The Commission directed the Postal Service to “realign its revenue and cost calculations for Stamped Envelopes” or improve cost coverage through above-average price increases. FY 2016 ACD at 63. In FY 2017, the Postal Service again did not include shipping fees in its reported Stamped Envelope revenue or CRA.<sup>165</sup>

In the FY 2018 ACR, the Postal Service reports revenue of \$12.6 million and attributable cost of \$12.1 million for Stamped Envelopes, including shipping fees. FY 2018 ACR at 41.

The Public Representative comments that without the inclusion of shipping fees, revenue for Stamped Envelopes falls from \$12.6 million to \$11.2 million, resulting in cost coverage of only 92.6 percent. PR Comments at 54. The Public Representative notes concern about a nearly 52 percent increase in the attributable cost for Stamped Envelopes, with only a 3 percent increase in revenue. *Id.* at 55.

*The Commission finds that revenue for Stamped Envelopes covered 105.0 percent of attributable cost for the product, and that the inclusion of shipping fees in the revenue calculation is consistent with the Commission’s directive in the FY 2016 ACD. However, the Commission shares the concerns of the Public Representative regarding the trend of increasing cost, and encourages the Postal Service to take steps to prevent attributable cost for Stamped Envelopes from exceeding revenue. Additionally, the Postal Service should be consistent, year to year, in its revenue and cost calculations regarding the inclusion of revenue from premium options and shipping fees.*

## 8. Media Mail/Library Mail

In FY 2018, Media Mail/Library Mail had a cost coverage of 76.7 percent, a 1.0 percent increase compared with FY 2017.<sup>166</sup> Unit contribution increased 0.6 cents per piece from FY 2017 to FY 2018.<sup>167</sup> FY 2018 was the twelfth consecutive year that Media Mail/Library Mail did not generate sufficient revenues to cover attributable costs. Docket No. R2019-1 included an above-average price increase for Media Mail/Library Mail. FY 2018 ACR at 40.

<sup>165</sup> Docket No. ACR2017, Library Reference USPS–FY17–1, December 29, 2017.

<sup>166</sup> See FY 2018 ACR at 39; FY 2017 ACD at 75.

<sup>167</sup> Unit contribution increased from a loss of \$1.124 per piece in FY 2017 to a loss of \$1.065 in FY 2018. FY 2017 ACR at 40; FY 2018 ACR at 39.



The Postal Service states that it intends to continue to improve the cost coverage of Media Mail/Library Mail through above-average price increases. *Id.* Table III-13 shows the history of price increases for Media Mail/Library Mail under the PAEA.

**Table III-13**  
**Media Mail/Library Mail**  
**Price Adjustment vs. Price Adjustment Authority**

| Docket No. | Media Mail/Library Mail Price Adjustment | Price Adjustment Authority (Price Cap) |
|------------|--|--|
| R2008-1    | 4.538%                                   | 2.900%                                 |
| R2009-2    | 7.468%                                   | 3.800%                                 |
| R2011-2    | 1.964%                                   | 1.741%                                 |
| R2012-3    | 2.581%                                   | 2.133%                                 |
| R2013-1    | 3.469%                                   | 2.570%                                 |
| R2013-10   | 2.061%                                   | 1.696%                                 |
| R2015-4    | 2.197%                                   | 1.966%                                 |
| R2017-1    | 1.135%                                   | 0.871%                                 |
| R2018-1    | 1.993%                                   | 1.987%                                 |

Source: PRC-LR-ACR2018/6.

The Public Representative notes the small increase in cost coverage for Media Mail/Library Mail in FY 2018 compared with FY 2017. PR Comments at 48. She points to the decrease in cost-per-piece of 1.0 percent and the increase in revenue-per-piece of 0.2 percent as evidence that the Postal Service has complied with the Commission's FY 2017 ACD request that it reduce the unit cost of Media Mail/Library Mail. *Id.* She notes that FY 2018 is the second year that the cost coverage for Media Mail/Library Mail slightly increased, and concurs with the Postal Service's stated approach of continuing to apply above-average price increases to improve cost coverage. *Id.* at 48, 49.

Media Mail/Library Mail did not cover its attributable cost or make a contribution to institutional costs in FY 2018. The Commission has previously recognized that Media Mail/Library Mail has educational, cultural, scientific, or informational value to the recipient of the mail matter. *See, e.g.,* FY 2017 ACD at 76; FY 2016 ACD at 71; FY 2015 ACD at 67.

*The Commission finds that FY 2018 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail.*

## 9. Domestic Market Dominant NSAs

Domestic Market Dominant NSAs must comply with 39 U.S.C. § 3622(c)(10). That section requires that such agreements either "improve the net financial position of the Postal Service" or "enhance the performance of mail preparation, processing, transportation, or

other functions” and that they “not cause unreasonable harm to the marketplace.” 39 U.S.C. § 3622(c)(10).

After approving a Market Dominant NSA, the Commission evaluates it for compliance with 39 U.S.C. § 3622(c)(10). The Commission reviews the NSA’s performance during “contract years,” 12-month periods measured from the time the contract was implemented. The Commission reviews the contract year that ended during the fiscal year covered by the ACD.

For domestic Market Dominant NSAs, the current accepted analytical principle for estimating volume changes due to the Postal Service’s pricing incentive programs uses price elasticity to estimate the new volume generated.<sup>168</sup> This principle provides for consideration of “the financial impact of price incentives to increase mail volume or to shift mail volume between products should be based on the Postal Service’s best estimate of the price elasticity of the discounted product.” Order No. 738 at 3.

In FY 2018, one domestic Market Dominant NSA was in effect: the PHI Acquisitions, Inc. (PHI) NSA.<sup>169</sup> The PHI NSA is a 5-year NSA approved by the Commission in Docket Nos. MC2014-21 and R2014-6.<sup>170</sup> The Commission evaluates the PHI NSA based on its performance during Contract Year 4 (July 1, 2017 through June 30, 2018), which ended in FY 2018. For Contract Year 4 Quarters 3 and 4 (January 1, 2018 through June 30, 2018), PHI and the Postal Service agreed to suspend the Postal Service’s obligation to pay rebates.<sup>171</sup> On June 19, 2018, PHI and the Postal Service agreed to terminate the PHI NSA on June 30, 2018, the end of Contract Year 4.<sup>172</sup>

PHI qualified for \$837,000 in discounts in Contract Year 4 Quarters 1 and 2. Because there was no volume in Contract Year 4 Quarters 3 and 4, the PHI NSA did not meet the annual volume threshold for Contract Year 4. Using the elasticity-based accepted analytical principle, the Postal Service estimates that the PHI NSA resulted in a net financial contribution of negative \$837,000.<sup>173</sup> The Postal Service acknowledges that the PHI NSA did not comply with 39 U.S.C. § 3622(c)(10)(A) in FY 2018, but contends that no additional remedial action is warranted because the contract was terminated. *Id.* at 45.

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<sup>168</sup> Docket No. RM2010-9, Order Terminating Proceeding, May 27, 2011, at 1 (Order No. 738) (quoting Docket No. RM2008-4, Order No. 104, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008, at 9).

<sup>169</sup> FY 2018 ACR at 43. International Market Dominant NSAs are discussed in section B.8.d., *supra*.

<sup>170</sup> See Docket Nos. MC2014-21 and R2014-6, Order Adding PHI Acquisitions, Inc. Negotiated Service Agreement to the Market Dominant Product List, June 19, 2014 (Order No. 2097).

<sup>171</sup> See Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Temporary Suspension of Contract, December 8, 2017.

<sup>172</sup> See Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Termination of Agreement, June 19, 2018.

<sup>173</sup> FY 2018 ACR at 44.

In Contract Year 1, the PHI NSA made a net financial contribution of \$112,000. In Contract Year 2, the PHI NSA made a net financial contribution of negative \$1,047,000. In Contract Year 3, the PHI NSA made a net financial contribution of negative \$123,000. In Contract Year 4, the PHI NSA made a net financial contribution of negative \$837,000. Over the 4 years that the agreement was in effect, the PHI NSA made a net financial contribution of negative \$1,895,000.

In the original filing for Docket Nos. MC2014-21 and R2014-6, the Postal Service provided estimates of incremental volume and net financial contribution for each year of the PHI NSA.<sup>174</sup> Over the 4-year duration of the PHI NSA, the Postal Service estimated incremental volume of 282 million and a net financial contribution of \$7,558,000. *Id.* Over the 4-year duration of the PHI NSA, the actual incremental volume was 80 million and the actual net financial contribution was negative \$1,895,000.<sup>175</sup>

Incremental volume for the PHI NSA was only achieved in Contract Years 1 and 2. In Contract Year 1, the incremental volume estimate of 46 million was close to the actual incremental volume of 41 million, but the net financial contribution estimate of \$1,279,000 was much higher than the actual net financial contribution of \$112,000. *Id.* Even though there was actual incremental volume in Contract Year 2 (39 million compared to an estimated 70 million), the large increase in costs during that year resulted in negative net financial contribution. *Id.* For Contract Year 2, the cost per piece estimate was \$0.184 and the actual cost per piece was \$0.216. *Id.* In Contract Years 3 and 4, the rebate was paid on a quarterly basis but annual volume thresholds were not met; thus, there was zero incremental volume and negative net financial contribution.

The Commission is concerned that the Postal Service's actions regarding the PHI NSA indicate a continuing lack of institutional oversight. The Commission reminded the Postal Service in its FY 2016 ACD and FY 2017 ACD that it is responsible for negotiating and overseeing NSAs and ensuring that any Market Dominant NSA it enters into continues to improve the net financial position of the Postal Service. *See* 39 U.S.C. § 3622(c)(10)(A). The fact that the Postal Service decided only in Contract Year 4 to temporarily suspend the contract and to finally terminate the contract at the end of Contract Year 4 is troubling, given that it had ample opportunity to either terminate the contract or negotiate an amendment to the contract sooner.

*The Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 4. Over the 4-year duration of the PHI NSA, the Commission finds that the contract did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A). The Postal Service terminated the PHI NSA at the end of Contract Year 4; therefore, no further action is necessary.*

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<sup>174</sup> See Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add PHI Acquisitions, Inc. Negotiated Service Agreement to the Market-Dominant Product List, March 5, 2014, Excel file "PHI\_NSA\_Financials.FINAL.xlsx."

<sup>175</sup> See PRC-LR-ACR2018/8, Excel file "FY18 MD NSA Net Impact.xlsx."

## C. Other Issues

### 1. First-Class Mail Product Cost Coverage Disparity

As in previous ACD dockets, several commenters raise the issue of high cost coverage for First-Class Mail, both at the class level,<sup>176</sup> and comparatively within the class.<sup>177</sup>

Commenters suggest that the high cost coverage of First-Class Mail should trigger consideration of the Postal Service's rate design as a part of this proceeding.<sup>178</sup> SBE Council suggests that the cost coverage of 205.24<sup>179</sup> percent should be "instructive throughout this fiscal determination, and validate[s] the success of the previous pricing regimes and price-cap mechanisms." SBE Council Comments at 1-2. The National Postal Policy Council (NPPC) reiterates comments from previous ACD proceedings, noting that "First-Class Mail volumes continued to decline, and Presort Mail continued to make an exorbitant contribution to institutional costs." NPPC Comments at 1. As in previous proceedings, Pitney Bowes suggests that the Postal Service should "rebalance the cost coverage and unit contributions among First-Class Mail products[,] and that "[l]owering prices on more profitable and price sensitive Presort letters will help stimulate and maintain Presort letters volume, which would improve the Postal Service's financial position." Pitney Bowes Comments at 3.

In its reply comments, the Postal Service notes that the price cap is applied at the class level, affording the Postal Service the flexibility to apply non-uniform price adjustments within a class. Postal Service Reply Comments at 4. The Postal Service acknowledges "some products have higher cost coverages than others, and takes that fact into consideration in its rate design." *Id.* It suggests that it is not the Commission's responsibility to consider whether a different rate design could or should be established, and indicates it will "continue to balance the needs of its customers with opportunities for greater pricing and operational efficiencies, consistent with the PAEA's requirements." *Id.*

*The Commission has previously noted that the Postal Service's pricing flexibility, subject to the inflation-based cap, can be used to apply non-uniform price adjustments within a class.<sup>180</sup> With respect to First-Class Mail cost coverage disparities, the Commission continues to encourage the Postal Service to balance its own needs with those of its customers.*

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<sup>176</sup> SBE Council Comments at 1-2.

<sup>177</sup> Pitney Bowes Comments at 3; Comments of the National Postal Policy Council, February 14, 2019, at 1 (NPPC Comments).

<sup>178</sup> Other commenters express concern with the First-Class Mail rate increase approved in Docket No. R2019-1, which was not in effect during FY 2018. TPA Comments at 1; ACI Comments at 2; SBE Council Comments at 1; GCA Comments at 5. Because the rates approved by the Commission in Docket No. R2019-1 were not in effect during FY 2018, those rates are outside the scope of the FY 2018 ACD, which examines the compliance of rates or fees in effect during FY 2018. 39 U.S.C. § 3653(b)(1).

<sup>179</sup> Subsequent to the comment deadline, the Postal Service filed a revision to the CRA report that resulted in cost coverage of 204.22 percent for First-Class Mail. See PRC-LR-ACR2018/1, Excel file "18Summary\_LR1.xlsx," tab "SUM\_Current\_Fees," cell J39.

<sup>180</sup> FY 2017 ACD at 79.

## 2. Status of ACR Docket

PostCom states its concern with the “duration of [the ACR] proceedings” and asserts that “the Commission takes up the ACR while previous ACR dockets remain open.” PostCom Comments at 13. Further, PostCom claims the CHIRs are “left open for years, well after the rates underlying the ACR in question have changed and compliance has been determined.” *Id.* PostCom submits that if the Commission identifies a serious issue in the ACR docket that it “should open a new docket, aggressively pursue an answer, and order any relief it finds appropriate.” *Id.* at 14.

Contrary to PostCom’s assertions, the Commission’s ACD is finished on the date of issuance and there is no unfinished proceeding that continues for years. Within the ACD, the Commission has directed the Postal Service to remedy various issues and report on corrections. As part of those directives to report on corrections and other issues, the Postal Service files responses in the ACR docket corresponding to the ACD directive. This is to ensure that all information relating to Commission directives and reporting is readily accessible in the related ACR docket as opposed to creating new dockets for each distinct reporting requirement, which would require interested persons to search multiple dockets to view Postal Service responses to the Commission’s ACD directives.

# CHAPTER 4: COMPETITIVE PRODUCTS

## A. Introduction

In this chapter, the Commission reviews Competitive products to determine whether any rates or fees in effect during FY 2018 were not in compliance with 39 U.S.C. § 3633, which:

- Prohibits subsidization of Competitive products by Market Dominant products: 39 U.S.C. § 3633(a)(1)
- Requires that each Competitive product cover its attributable cost: 39 U.S.C. § 3633(a)(2)
- Requires that, collectively, Competitive products cover an appropriate share of the Postal Service's institutional costs: 39 U.S.C. § 3633(a)(3)

The principal FY 2018 findings for Competitive products are:

- Revenues for Competitive products as a whole exceeded incremental costs. Competitive products were not subsidized by Market Dominant products during FY 2018, thereby satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for six Competitive products did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2). The Competitive products that did not cover attributable costs are: two domestic NSAs, International Priority Airmail (IPA), International Money Transfer Service—Inbound (IMTS—Inbound), International Ancillary Services, and Officially Licensed Retail Products (OLRP).
- Collectively, Competitive products satisfied the requirement that they provide a minimum contribution of 5.5 percent to institutional costs.<sup>181</sup> As a result, Competitive products satisfied 39 U.S.C. § 3633(a)(3) during FY 2018.

## B. Cross-Subsidy Provision: 39 U.S.C. § 3633(a)(1)

39 U.S.C. § 3633(a)(1) requires that Competitive products not be subsidized by Market Dominant products. To determine compliance, the Commission uses the incremental cost test, which calculates the costs incurred by Competitive products collectively, and compares those costs to the revenue generated by Competitive products collectively. As

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<sup>181</sup> See 39 C.F.R. § 3015.7(c). The Commission updated this rule on January 3, 2019 to replace the 5.5 percent minimum contribution with one determined by a formula. See Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019 (Order No. 4963); see also section 4.D., *infra*.

long as the revenue from Competitive products exceeds those products' incremental costs, the Commission can conclude that no cross-subsidization has occurred.<sup>182</sup>

Because the collective incremental costs of Competitive products are greater than the sum of the attributable cost of each product, using collective incremental costs raises the Competitive product cost floor when testing for cross-subsidies.<sup>183</sup> Therefore, the incremental cost model provides a more rigorous test for determining compliance with 39 U.S.C. § 3633(a)(1) than the attributable cost coverage requirement of 39 U.S.C. § 3633(a)(2).

The American Consumer Institute Center for Citizen Research (ACI) states that cross-subsidization is "implicit within the intertwined monopoly and competitive service lines."<sup>184</sup> ACI states that the Postal Service does not disclose sufficient financial detail for the public to determine the extent of the cross-subsidization, but claims that capital expenditures and depreciation expenses associated with delivery vehicles are not allocated appropriately, demonstrating that the Postal Service is "clearly and unequivocally violating the PAEA." ACI Comments at 2-3.

The Postal Service encourages the Commission to reject ACI's claim that Competitive products were cross-subsidized by Market Dominant products. Postal Service Reply Comments at 15. The Postal Service states that ACI's arguments are without merit and notes that other commenters agree that "competitive products easily satisfied the cross-subsidy test in FY 2018." Postal Service Reply Comments at 14-15.

The Public Representative notes that Competitive product revenues exceeded their incremental costs, and thus "concludes that the Postal Service's market dominant products did not subsidize its competitive products in FY 2018." PR Comments at 66.

Pitney Bowes also notes that Competitive product revenues exceeded their incremental costs, and concludes that "competitive products were not cross-subsidized by market dominant products and were in compliance with 39 U.S.C. § 3633(a)(1)." Pitney Bowes Comments at 4.

The Commission recently updated the methodological procedures used to estimate incremental costs.<sup>185</sup> The Postal Service applied this new methodology when reporting incremental costs for FY 2018. FY 2018 ACR at 68. Using this methodology, in FY 2018 the incremental costs of Competitive products were \$15.466 billion and the total revenues of

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<sup>182</sup> See Docket No. RM2007-1, Order Proposing Regulations to Establish a System of Ratemaking, August 15, 2007, at 65 (Order No. 26).

<sup>183</sup> Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposals Twenty-Two through Twenty-Five), January 27, 2010, at 4-5 (Order No. 399).

<sup>184</sup> Comments of American Consumer Institute Center for Citizen Research Regarding Docket No. ACR2018, January 31, 2019, at 2 (ACI Comments).

<sup>185</sup> Order No. 4719.



Competitive products were \$23.059 billion.<sup>186</sup> Accordingly, in FY 2018 revenues from Competitive products exceeded incremental costs.

None of the commenters offer evidence to suggest that the magnitude of any potential misallocation of costs is sufficiently large that correction would result in the incremental costs of Competitive products exceeding their revenues. As FY 2018 revenues from Competitive products exceeded incremental costs, there is no evidence to suggest that Competitive products are being illegally cross-subsidized by Market Dominant products.

*The Commission finds Competitive products satisfied 39 U.S.C. § 3633(a)(1) in FY 2018.*

## **C. Product Cost Coverage Provision: 39 U.S.C. § 3633(a)(2)**

39 U.S.C. § 3633(a)(2) requires the revenue for each Competitive product to cover its attributable cost. Below, the Commission discusses the FY 2018 financial performance for five separate Competitive product groupings:

- Competitive domestic products with rates of general applicability
- Competitive domestic products consisting of NSAs<sup>187</sup>
- Competitive international products with rates of general applicability
- Competitive international products consisting of NSAs
- Competitive nonpostal services.

### **1. Competitive Domestic Products with Rates of General Applicability**

In FY 2018, there were 12 Competitive domestic products with rates of general applicability: Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services;<sup>188</sup> Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies.

*In FY 2018, every Competitive domestic product with rates of general applicability covered its attributable cost and thereby satisfied the statutory requirements of 39 U.S.C. § 3633(a)(2).*

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<sup>186</sup> See PRC–LR–ACR2018/1 Excel file “18 Summary\_LR1.xlsx,” tab “Appendix A (Incremental Costs),” cells C21:D21.

<sup>187</sup> As discussed in Chapter 3, an NSA is a written contract between the Postal Service and a mailer, to be in effect for a defined period, which provides for customer-specific rates or fees and/or terms of service in accordance with the terms and conditions of the contract. See 39 C.F.R. § 3001.5(r).

<sup>188</sup> The Competitive Ancillary Services product consists of the following services: Adult Signature and Package Intercept Service. See *Mail Classification Schedule*, Section 2645 (MCS).

## 2. Competitive Domestic Products Consisting of NSAs

As shown in Table IV-1, in FY 2018, there were 885 Competitive domestic products consisting of NSAs.

**Table IV-1**  
**Competitive Domestic NSA Products in Effect during FY 2018**

| Competitive Domestic NSA Product Groupings                                   | Number of Products <sup>a</sup> |
|--|---------------------------------|
| First-Class Package Service Contracts  | 49                              |
| Parcel Return Service Contracts  | 6                               |
| Parcel Select & Parcel Return Service Contracts                              | 2                               |
| Parcel Select Contracts  | 13                              |
| Priority Mail—Non-Published Rates <sup>b</sup> Contracts                     | 327                             |
| Priority Mail & First-Class Package Service Contracts                        | 71                              |
| Priority Mail Contracts  | 290                             |
| Priority Mail Express & Priority Mail Contracts                              | 51                              |
| Priority Mail Express Contracts  | 34                              |
| Priority Mail Express, Priority Mail & First-Class Package Service Contracts | 39                              |
| Priority Mail & Parcel Select Contracts                                      | 0                               |
| Priority Mail Express & First-Class Package Service Contracts                | 3                               |
| <b>Total</b>   | <b>885</b>                      |

<sup>a</sup> With the exception of NSAs entered into under the Priority Mail—Non-Published Rates (Priority Mail—NPR) product, each Competitive domestic NSA is a separate product.

<sup>b</sup> The Priority Mail—NPR product allows the Postal Service to enter into Priority Mail NSAs without filing the agreements with the Commission for pre-implementation review.

Source: Library Reference USPS–FY18–NP27, December 28, 2018.

### a. Attributable Cost Coverage

39 U.S.C. § 3633(a)(2) requires each Competitive domestic NSA product to cover its attributable cost. The Commission finds that all but two Competitive domestic NSAs covered their attributable costs and complied with this statutory requirement. The Competitive domestic NSAs that did not cover their attributable costs were Priority Mail Contract 179 and Priority Mail Contract 433. USPS–FY18–NP27. The Postal Service states that Priority Mail Contract 179 has been terminated.

When the Commission approved Priority Mail Contract 433, it required quarterly reporting to permit the “Commission to confirm that the Postal Service’s financial models contain reasonable cost assumptions and accurately account for all costs associated with [this contract].”<sup>189</sup> The Postal Service states that it is closely evaluating Priority Mail Contract

<sup>189</sup> Docket Nos. MC2018-149 and CP2018-215, Order Adding Priority Mail Contract 433 to the Competitive Product List, May 30, 2018, at 5-6 (Order No. 4626).

433 and will renegotiate prices if necessary. *See* FY 2018 ACR at 69. Despite this quarterly reporting demonstrating a failure of Priority Mail Contract 433 to cover its costs, the Postal Service has not acted to renegotiate prices. This contract is not a market test and the Commission is concerned at this contract's failure to cover its costs. As a result, the Commission directs the Postal Service to provide monthly, rather than quarterly, reporting for Priority Mail Contract 433. The increased frequency of reporting will permit the Commission to more-closely monitor the agreement and take corrective action if cost coverage does not improve.

Three other agreements had components that failed to cover their attributable costs, but still covered those costs as a whole. USPS–FY18–NP27. The Public Representative states that these agreements require special attention by the Postal Service and the Commission to make sure that they do not become out of compliance if the product mix changes. PR Comments at 71.

The Public Representative also notes that the number of domestic NSAs that did not cover their attributable costs declined from 4 NSAs in FY 2017 and 13 NSAs in FY 2016. *Id.*

*The Commission finds that Priority Mail Contract 179 and Priority Mail Contract 433 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. Because Priority Mail Contract 179 is no longer active, no further action is required. For Priority Mail Contract 433, the Commission directs the Postal Service to change from quarterly reporting to monthly reporting starting with April 2019, with each monthly report due no later than 30 days after the end of that month. Additionally, the Commission directs the Postal Service to report within 90 days of issuance of this ACD whether it intends to renegotiate prices for Priority Mail Contract 433.*

#### b. Failure to Report NSA Terminations

The Postal Service did not report data for six NSAs which, based on their original expiration dates, would have been active in FY 2018.<sup>190</sup> A CHIR was issued asking why no data was reported for the six NSAs.<sup>191</sup> The Postal Service responded that all six were terminated prior to FY 2018 and that it would file termination notices in those dockets.<sup>192</sup> Since 2009, the Commission has consistently required the Postal Service to promptly notify the

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<sup>190</sup> See Responses of the United States Postal Service to Questions 1-20 of Chairman's Information Request No. 3, January 28, 2019, question 17 (January 28 Responses to CHIR No. 3).

<sup>191</sup> Chairman's Information Request No. 3, January 11, 2019, question 17.

<sup>192</sup> January 28 Responses to CHIR No. 3, question 17. The termination notices were filed on January 28, 2019. See Docket Nos. MC2016-20 and CP2016-26, USPS Notice of Termination of Priority Mail Express & Priority Mail Contract 22, January 28, 2019; Docket Nos. MC2016-32 and CP2016-38, USPS Notice of Termination of Priority Mail Express Contract 30, January 28, 2019; Docket Nos. MC2016-93 and CP2016-118, USPS Notice of Termination of Priority Mail Express Contract 34, January 28, 2019; Docket Nos. MC2016-119 and CP2016-149, USPS Notice of Termination of First-Class Package Service Contract 51, January 28, 2019; Docket Nos. MC2016-141 and CP2016-178, USPS Notice of Termination of First-Class Package Service Contract 54, January 28, 2019; Docket Nos. MC2016-161 and CP2016-232, USPS Notice of Termination of Priority Mail Express Contract 38, January 28, 2019.

Commission when NSAs terminate prior to their scheduled expiration date.<sup>193</sup> The Commission issued Order No. 5053 in the affected dockets, requiring the Postal Service to provide additional information on its failure to report NSA terminations in compliance with this requirement.<sup>194</sup>

### 3. Competitive International Products with Rates of General Applicability

Ten Competitive international mail products have rates and fees of general applicability: Outbound International Expedited Services; Outbound Priority Mail International; Inbound Parcel Post (at UPU rates); First-Class Package International Service (FCPIS); International Surface Airlift (ISAL); International Priority Airmail (IPA); International Direct Sacks—M-Bags; IMTS—Outbound; IMTS—Inbound;<sup>195</sup> and International Ancillary Services.<sup>196</sup>

The Commission finds that three products, IPA, IMTS—Inbound, and International Ancillary Services did not satisfy 39 U.S.C. § 3633(a)(2).

#### a. International Cost and Revenue Analysis

The International Cost and Revenue Analysis (ICRA) serves as the basis for the Commission's analysis of international mail volume, weight, cost, and revenue data. Its accuracy is paramount to the Commission's compliance determination. This year, the ICRA that was initially filed on December 28, 2018<sup>197</sup> contained errors that led to the Postal Service filing a revised version on February 11, 2019.<sup>198</sup> This revision affected the Commission's compliance determinations in several ways.

First, the February 11 ICRA not only included corrected data, but also introduced a new methodology for the distribution of PRIME enhanced payments.<sup>199</sup> Second, numerous agreements that appeared to be noncompensatory based on the data submitted in the December 28 ICRA were shown to be compensatory based on the revised data.<sup>200</sup> This was a result of both the new distribution for PRIME enhanced payments, along with corrections to the calculation of domestic cost savings for worksharing discounts in certain NSAs.<sup>201</sup>

<sup>193</sup> Docket Nos. MC2009-13 and CP2009-17, Order Concerning Express Mail & Priority Mail Contract 3 Negotiated Service Agreement, January 16, 2009, at 6 (Order No. 172) ("The Postal Service shall promptly notify the Commission if the contract terminates, earlier than 3 years from the effective date of the contract.").

<sup>194</sup> Docket Nos. MC2016-20, *et al.*, Order Requiring Additional Information, April 10, 2019 (Order No. 5053).

<sup>195</sup> IMTS—Inbound consists of bilateral and multilateral agreements with foreign postal operators.

<sup>196</sup> International Ancillary Services consists of Certificates of Mailing, Registered Mail, Return Receipt, Restricted Delivery, Insurance, and Customs Clearance and Delivery Fees.

<sup>197</sup> Library Reference USPS—FY18—NP2, December 28, 2018 (December 28 ICRA).

<sup>198</sup> Library Reference USPS—FY18—NP2 (revised), February 11, 2019 (February 11 ICRA).

<sup>199</sup> February 11 ICRA, file "FY18 NP2 Preface.Revised.2.11.19.pdf" at 6-10 (February 11 ICRA Preface); *see also* section 4.C.3.b, *infra*.

<sup>200</sup> *See* section 4.C.4., *infra*.

<sup>201</sup> February 11 ICRA Preface at 7.

Finally, both inbound and outbound M-bags are classified as competitive, but in the December 28 ICRA the Postal Service reported the inbound M-bags as part of Inbound Letter Post. January 28 Responses to CHIR No. 3, question 12. The Postal Service asserts that the impact is “minimal”<sup>202</sup> and did not correct this error in the February 11 ICRA. The Commission observes that incorporating inbound M-bags with outbound M-bags does not affect the compliance of either International Direct Sacks—M-Bags or Inbound Letter Post.

*The Commission directs the Postal Service to incorporate inbound M-Bags into the International Direct Sacks—M-Bags Competitive product in future ICRA filings.*

b. New Methodology to Distribute Payments in the International Cost and Revenue Analysis

The Postal Service uses a new methodology to distribute PRIME enhanced payments in the February 11 ICRA.<sup>203</sup> In the current accepted methodology, the Postal Service distributes all of these payments to FCPIS because they could previously only be treated as an indistinguishable aggregate. February 11 ICRA Preface at 7. Improvements in the Postal Service’s data systems have resulted in the ability to distinguish PRIME payments according to the products that incur these payments. *Id.* In revising the ICRA, the Postal Service used these newly available data to distribute the PRIME enhanced payments among FCPIS, Commercial ePackets, and IPA NSAs. *Id.* at 7-9.

The new methodology the Postal Service uses to distribute PRIME enhanced payments appears to improve the accuracy of the cost estimates. However, the Commission did not previously approve this new methodology. Although the Commission will use this methodology for assessing compliance in this ACD, the methodology must be thoroughly reviewed by the Commission and stakeholders through a docketed proceeding before it can be used in future ACRs.

*For purposes of this ACD, the Commission accepts the Postal Service’s distribution of PRIME enhanced payments. The Commission concludes however, that this is a change in analytical principles that the Commission did not approve and directs the Postal Service to file a petition for the initiation of a proceeding to review this proposed change in analytical principles within 90 days of issuance of this ACD.*<sup>204</sup>

c. International Priority Airmail

In FY 2018, IPA did not cover its attributable costs. FY 2018 ACR at 69. The Postal Service observes that the majority of IPA mail is included in NSAs “that are reported within the

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<sup>202</sup> See *id.*

<sup>203</sup> Responses to CHIR No. 14. PRIME is an agreement among approximately 141 Designated Postal Operators working together in the tracked packet area wherein the parties remunerate each other for the timely return of scans with an enhanced payment due in addition to the basic per item payment. February 11 ICRA Preface at 6.

<sup>204</sup> See also section 4.C.3.b., *infra* (describing an additional requirement when filing the required petition).

competitive International [NSA] categories.” *Id.* The Postal Service further states that the volumes, revenues, and costs for the IPA product are developed as residuals after subtracting the directly estimated NSA data.<sup>205</sup> As a result, the Postal Service does not directly estimate volumes, revenues, and costs for this product, and any variance in the costs for IPA as a whole (including NSAs) can affect the non-NSA IPA product. FY 2018 ACR at 69-70. The Postal Service also notes that prices for this product increased 19.9 percent in January 2019, which should improve cost coverage. *Id.* at 70.

The last time the IPA product was noncompensatory was in FY 2013.<sup>206</sup> In the FY 2013 ACD, the Commission directed the Postal Service to recommend modifications to its costing methodology, which the Commission later approved in Docket No. RM2014-6.<sup>207</sup>

In her comments, the Public Representative observes that in FY 2013 the Postal Service provided similar justification for the inability of IPA to cover costs, and that the Commission was skeptical of such justification. PR Comments at 67. She, however, expects cost coverage to improve in FY 2019. *Id.*

The Postal Service implies that the non-NSA IPA cost data may be unreliable because they are calculated as the residual cost after measured IPA NSA costs (which are calculated as part of NSA products rather than the IPA product) are subtracted from total IPA costs (including both IPA and IPA NSAs). *See* FY 2018 ACR at 69-70. Because non-NSA IPA volume is small in comparison to IPA NSA volume, variance in the IPA NSA cost measurements results in even greater variability for the residual IPA costs. *Id.* at 70. The Commission notes that no attempt has been made to quantify the variability of IPA cost calculations to determine if it is large enough to explain the reported failure of IPA to cover its costs in FY 2018.

The Commission also observes that transportation and delivery costs for the IPA product significantly increased in percentage terms in FY 2018. This growth alone, however, is insufficient to explain the noncompensatory status of IPA.

The Commission further notes that the greatest increase in IPA costs is in settlement charges. This increase was disproportionately high for the IPA product as compared to IPA NSAs. The Postal Service states that country-specific information on IPA NSA volume is unavailable, resulting in the use of average terminal dues for IPA NSA mail.<sup>208</sup>

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<sup>205</sup> *Id.* at 69-70; *see also* January 28 Responses to CHIR No. 3, question 19.

<sup>206</sup> *See* FY 2013 ACD at 84 (showing IPA as noncompensatory in FY 2013); FY 2014 ACD at 74-75 (showing IPA as compensatory in FY 2014); FY 2015 ACD at 84 (showing IPA as compensatory in FY 2015); FY 2016 ACD at 83 (showing IPA as compensatory in FY 2016); FY 2017 ACD at 85-86 (showing IPA as compensatory in FY 2017).

<sup>207</sup> *See* FY 2013 ACD at 86; Docket No. RM2014-6, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Eight), September 10, 2014, at 6-9 (Order No. 2180).

<sup>208</sup> Library Reference USPS–FY18–NP35, January 28, 2019, Preface, question 12.

Finally, as part of its revisions to the ICRA, the Postal Service developed a new methodology to distribute PRIME enhanced payments. *See* section 4.C.3.b., *supra*. In applying this methodology, the Postal Service distributed these payments to the IPA product, despite asserting that only IPA NSAs incur these payments. Responses to CHIR No. 14, question 5.b. As part of its petition to change analytical principles, the Postal Service should revisit the method used for this distribution.

*The Commission finds that IPA was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. The Commission directs the Postal Service to report on the following issues involving IPA within 90 days of the issuance of this ACD:*

- *The feasibility of directly estimating the costs of the IPA product.*
- *The feasibility of developing country-specific information on IPA NSA volume or, alternatively, a methodology to distribute settlement charges more accurately.*
- *The estimated variance of the reported non-NSA IPA product costs based on an analysis of the variance of each of the measurements used to calculate non-NSA IPA product costs. This analysis should include the variance at the cost segment and component level.*

*Additionally, the Commission directs the Postal Service, when it files a petition for the initiation of a proceeding to consider the proposed change in analytical principles for PRIME enhanced payments, to ensure that the proposed distribution does not allocate these NSA-specific costs to the non-NSA IPA product.*<sup>209</sup>

#### d. International Ancillary Services

Revenue for International Ancillary Services was less than attributable cost in FY 2018 because Outbound International Insurance did not cover its attributable cost. The Postal Service observes that the Commission approved a change in the attribution of international indemnities, which slightly decreased indemnities attributed to Outbound International Insurance. FY 2018 ACR at 71-72. The Postal Service notes that it increased prices for Priority Mail Express International (PMEI) insurance and Priority Mail International (PMI) insurance in FY 2018 and increased prices again in FY 2019. *Id.* at 72.

The Postal Service also reports that only 7 IOCS tallies were recorded for Outbound International Insurance, leading to a cost coverage that ranged from 13 percentage points below to 21 percentage points above the reported figure.<sup>210</sup> However, the Commission notes that even the upper bound of this interval would not result in Outbound International Insurance covering its costs.

The Public Representative suggests that the low cost coverage could be related to the

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<sup>209</sup> *See* section 4.C.3.b., *supra*.

<sup>210</sup> Responses to CHIR No. 17.

relatively high volatility of IOCS-based unit cost estimates. PR Comments at 69. Therefore, she is unable to conclude that the cost coverage is fully reliable. *Id.* She also suggests that the January 2019 price increase may still be insufficient to bring Outbound International Insurance into compliance. *Id.* at 69-70. In its reply comments, the Postal Service expresses its belief that the combination of the January 2019 price increases and the change in the costing methodology provides a reasonable prospect that the cost coverage for Outbound International Insurance will exceed 100 percent in FY 2019. Postal Service Reply Comments at 17.

The Commission notes that while the change in methodology reduced indemnities for Outbound International Insurance, in FY 2018 indemnities attributed to Outbound International Insurance alone exceeded revenues. One possible reason for this would be a deficiency in the costing methodology. When additional insurance is purchased for a mailpiece, all of the associated indemnity is assigned to the Outbound International Insurance product, rather than the amount of the indemnity greater than the value of the built-in insurance.<sup>211</sup> Additionally, the Commission finds that the data the Postal Service provided concerning Outbound International Insurance raises concerns about the accuracy of the revenue data, as discrepancies exist between published rates and reported revenue per piece.<sup>212</sup>

*The Commission finds that International Ancillary Services was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. The Commission directs the Postal Service to investigate the discrepancies between published rates and reported revenue per piece. The Commission further directs the Postal Service to file a report within 120 days of issuance of this ACD on the results of this investigation and on the feasibility of disaggregating indemnities between insurance included in the product and additional insurance purchased for the mailpiece.*

e. International Money Transfer Service—Inbound

In FY 2018, revenue for the IMTS—Inbound product was less than attributable cost. By comparison, in FY 2017, revenues for both IMTS—Inbound and IMTS—Outbound were less than attributable costs. FY 2017 ACD at 86.

The Postal Service observes that the costs for IMTS “remain subject to variation,” as evinced by only four IOCS tallies for IMTS—Inbound and IMTS—Outbound. FY 2018 ACR at 70-71. Moreover, the Postal Service had no IOCS tallies for IMTS—Inbound specifically. Responses to CHIR No. 17, question 5.

In the FY 2015 ACD, the Commission directed the Postal Service to report on the obstacles to exiting or renegotiating the agreements that comprise IMTS—Inbound. FY 2015 ACD at 85. The Postal Service reported that terminating or renegotiating these agreements

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<sup>211</sup> See Docket No. RM2018-9, Responses of the United States Postal Service to Questions 1-4 of Chairman’s Information Request No. 1, July 19, 2018, question 1.b. (Docket No. RM2018-9 Responses to CHIR No. 1).

<sup>212</sup> Library Reference USPS—FY18—NP39, February 15, 2019, Preface, question 1.



requires a delegation of authority from the Department of State under the Circular 175 process.<sup>213</sup> In the FY 2016 ACD, the Commission recommended that the Postal Service request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product. FY 2016 ACD at 84. In the FY 2017 ACD, the Commission required the Postal Service to request the delegation of authority. FY 2017 ACD at 87. The Postal Service informed the Commission that it complied with that requirement within the required 120-day time period.<sup>214</sup> In its FY 2018 ACR, the Postal Service indicates that it awaits a response from the State Department. FY 2018 ACR at 71. The Public Representative finds these actions “appropriate.” PR Comments at 68.

*The Commission finds that IMTS—Inbound was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. The Commission directs the Postal Service to provide an update on the status of the request for a delegation of authority under the Circular 175 process from the Department of State to terminate or renegotiate the agreements that comprise the IMTS—Inbound product within 120 days of issuance of this ACD.*

#### 4. Competitive International Products Consisting of NSAs

Competitive international mail also includes products with rates and fees not of general applicability that are established pursuant to one or more NSAs. These agreements often require a minimum volume and/or revenue commitment by mailers or foreign postal operators in exchange for reduced rates from the Postal Service.

At the request of the Postal Service, and to address administrative concerns involving product reporting and classification on the Competitive Product list, the Commission permitted the grouping of functionally equivalent international NSAs with the express understanding that each NSA within a product must cover its attributable cost.<sup>215</sup> Functionally equivalent international NSAs are also collectively evaluated as a product for compliance with 39 U.S.C. § 3633(a)(2).

The Postal Service reports volume, revenue, and cost data for each Competitive international NSA. For FY 2018, the Postal Service provides this data for 914 international NSAs, 901 of which include negotiated rates for outbound mail and 13 of which include negotiated rates for inbound mail.<sup>216</sup> The financial results for Competitive outbound and inbound international products consisting of NSAs are discussed below.

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<sup>213</sup> See Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, question 2.

<sup>214</sup> Docket No. ACR2017, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2017 Annual Compliance Determination, July 26, 2018, at 2.

<sup>215</sup> See, e.g., Docket Nos. CP2011-34, *et al.*, Order Approving Five Additional Global Expedited Package Services 3 Negotiated Service Agreements, December 1, 2010, at 5 (Order No. 601).

<sup>216</sup> PRC–LR–ACR2018/NP2.

a. Competitive Outbound International Products Consisting of NSAs

Competitive outbound international products with negotiated rates are classified on the Competitive Product list. Table IV-2 shows the FY 2018 product category for each of these products for which the Postal Service reports FY 2018 financial results.<sup>217</sup>

**Table IV-2**  
**Competitive Outbound International Products by Category (FY 2018)<sup>218</sup>**

| Product Category   | Product Name                                    |
|--|---|
| GEPS Contracts   | GEPS 3  |
|  | GEPS 5  |
|  | GEPS 6  |
|  | GEPS 7  |
|  | GEPS 8  |
|  | GEPS 9  |
| Global Expedited Package Services (GEPS)—Non-Published Rates | Global Expedited Package Services (GEPS)—NPR 10 |
|  | Global Expedited Package Services (GEPS)—NPR 11 |
|  | Global Expedited Package Services (GEPS)—NPR 12 |
|  | Global Expedited Package Services (GEPS)—NPR 13 |
|  | Global Expedited Package Services (GEPS)—NPR 14 |
| Global Plus Contracts  | Global Plus 1D                                  |
|  | Global Plus 3                                   |
|  | Global Plus 4                                   |
| Global Reseller Expedited Package Contracts                  | Global Reseller Expedited Package Services 2    |
|  | Global Reseller Expedited Package Services 4    |
| Priority Mail International – Regional Rate Boxes            | PMI RRB 1                                       |

Source: PRC–LR–ACR2018/NP2.

The Postal Service also reports financial results for each outbound international NSA within these products. The Postal Service initially identified six NSAs that did not generate sufficient revenues to cover their attributable costs. FY 2018 ACR at 72. However, all six of these NSAs were shown to actually be compensatory in the February 11 ICRA. Additionally, the Commission identified 23 additional NSAs as noncompensatory based on the December 28 ICRA,<sup>219</sup> 17 of which were shown to be compensatory in the February 11 ICRA. Of the remaining six NSAs identified by the Commission as noncompensatory, the Postal Service

<sup>217</sup> The Postal Service does not report FY 2018 financial results for the following Competitive outbound international products: Global Direct Contracts 1, Global Bulk Economy Contracts, Global Plus 2C, GREPS 1, GREPS 3, GEPS—NPR 2, GEPS—NPR 3, GEPS—NPR 4, GEPS—NPR 5, GEPS—NPR 6, GEPS—NPR 7, GEPS—NPR 8, GEPS—NPR 9, Priority Mail International Regional Rate Boxes—NPR, Alternative Delivery Provider (ADP) Contracts 1, and Alternative Delivery Provider Reseller (ADP) Contracts 1. There was no volume for these products in FY 2018 and, in many instances, the Postal Service replaced them with products of a similar nature.

<sup>218</sup> This table presents outbound international products by product category as they appear in the MCS.

<sup>219</sup> See Chairman's Information Request No. 7 and Notice of Filing Under Seal, February 1, 2019, question 1 (CHIR No. 7); Chairman's Information Request No. 8 and Notice of Filing Under Seal, February 5, 2019, question 1 (CHIR No. 8).

reports that five had very low volume and that all have expired.<sup>220</sup> However, none of these six NSAs were standalone products, and each was grouped with other functionally equivalent NSAs to form the products. In each case, the relevant products covered their attributable costs.

*The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product. When the Postal Service files its FY 2019 ACD it should correctly identify all Competitive outbound international products consisting of NSAs that do not cover costs.*

b. Competitive Inbound International Products Consisting of NSAs

Competitive inbound international products with negotiated rates are classified on the Competitive Product list. Table IV-3 shows the Competitive inbound international products for which the Postal Service reports FY 2018 financial results.<sup>221</sup>

**Table IV-3**  
**Competitive Inbound International Products by Category (FY 2018)<sup>222</sup>**

| Product Category   | Product Name   |
|--|--|
| International Business Reply Service Competitive Contracts                   | International Business Reply Service Competitive Contracts 3                 |
| Inbound EMS  | Inbound EMS 2  |
| Inbound Air Parcel Post (at non-UPU rates)                                   | Royal Mail Group Inbound Air Parcel Post Agreement                           |
| Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 | Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 |

Source: PRC-LR-ACR2018/NP2.

The Postal Service also reports financial results for each inbound international Competitive NSA. Negotiated rates for all 12 of the NSAs generated sufficient revenues to cover their attributable costs in FY 2018.

*The Commission concludes that Competitive inbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenues exceeded attributable cost for each product.*

<sup>220</sup> See Library Reference USPS-FY18-NP38, February 12, 2019, Preface, question 1 (responding to CHIR No. 7) and question 1 (responding to CHIR No. 8).

<sup>221</sup> The Postal Service does not report FY 2018 financial results for four Competitive inbound international products: International Business Reply Service Competitive Contract 1, Inbound Direct Entry Contracts with Customers, Inbound Direct Entry Contracts with Foreign Postal Administrations, and Inbound Direct Entry Contracts with Foreign Postal Administrations 1. There was no volume for these products in FY 2018, and, in several instances, the Postal Service replaced them with products of a similar nature.

<sup>222</sup> This table presents outbound international products by product category as they appear in the MCS. In the case of Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1, the product name is the same name as the product category.

## 5. Competitive Nonpostal Services

In FY 2018, Competitive nonpostal services<sup>223</sup> generated \$151.9 million in revenue and incurred \$40.2 million in expenses, which resulted in a net revenue of \$111.7 million. USPS–FY18–NP27 Preface. This figure represents a 2 percent decrease compared to FY 2017, but an overall cost coverage of 378 percent.

One competitive nonpostal product, OLRP, did not cover attributable costs.

*The Commission finds that OLRP was not in compliance in FY 2018, as revenue did not cover attributable costs. The Commission directs the Postal Service to identify and implement ways to bring cost coverage to or above 100 percent for OLRP.*

### **D. Appropriate Contribution Provision: 39 U.S.C. § 3633(a)(3)**

39 U.S.C. § 3633(a)(3) requires the Commission to “ensure that all competitive products collectively cover what the Commission determines to be an appropriate share of the institutional costs of the Postal Service.” 39 U.S.C. § 3633(b) requires the Commission to review the appropriate share requirement every 5 years to determine whether the requirement “should be retained in its current form, modified, or eliminated.” In implementing section 3633 after the PAEA was enacted, the Commission set the initial appropriate share requirement at 5.5 percent of total institutional costs.<sup>224</sup> In 2012, the Commission conducted its first review of the appropriate share and found it appropriate to maintain the requirement at 5.5 percent.<sup>225</sup>

Following its second review of the appropriate share, which was initiated in FY 2017, the Commission implemented a new, formula-based methodology for determining what the appropriate share should be. *See* Order No. 4963. Under this approach, the appropriate share is to be updated annually as part of the ACD. *Id.* at 27. The final rule adopting the new appropriate share methodology was issued on January 3, 2019, and became effective on March 2, 2019. *See id.* During FY 2018, the required appropriate share under the Commission’s regulations remained 5.5 percent. The first year to which the new methodology will be applicable is FY 2019. Therefore, for compliance purposes in this ACD, the appropriate share is 5.5 percent.

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<sup>223</sup> The seven Competitive products are: (1) Licensing of Intellectual Property Other Than Officially Licensed Retail Products; (2) Mail Services Promotion; (3) OLRP; (4) Passport Photo Service; (5) Photocopying Service; (6) Rental, Leasing, Licensing or Other Non-Sale Disposition of Tangible Property; and (7) Training Facilities and Related Services. Docket No. MC2010-24, Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products, December 11, 2012, at 4 (Order No. 1575).

<sup>224</sup> *See* Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007, at 90-92 (Order No. 43).

<sup>225</sup> *See* Docket No. RM2012-3, Order Reviewing Competitive Products’ Appropriate Share Contribution to Institutional Costs, August 23, 2012, at 24-25 (Order No. 1449).

## 1. Comments on Appropriate Contribution Provision

The Commission received comments related to the appropriate contribution provision from the Taxpayers Protection Alliance (TPA), SBE Council, Pitney Bowes, UPS, the National Taxpayers Union (NTU), and the Public Representative. The Postal Service, Amazon.com Services, Inc. (Amazon), and the Parcel Shippers Association (PSA) all filed reply comments.

TPA asserts that the appropriate contribution requirement as currently constituted compromises the Postal Service's financial position.<sup>226</sup> TPA concedes that the formula-based approach recently adopted by the Commission was "a step in the right direction," but it maintains that the attribution of costs to Competitive products remains significantly lower than the actual share of costs created by Competitive products, which it asserts to be approximately 20 percent.<sup>227</sup>

SBE Council and NTU both state that they support the Commission's decision to frequently revisit the appropriate share amount based on market conditions.<sup>228</sup> However, SBE Council maintains that current market conditions "largely suggest . . . that a rigid 8.8 percent appropriate share is insufficient."<sup>229</sup>

Pitney Bowes asserts that in FY 2018 Competitive products satisfied the appropriate contribution requirement, because their actual contribution to institutional costs was approximately 25 percent. Pitney Bowes Comments at 4.

UPS expresses the view that even under the Commission's new formula-based approach, the required appropriate share remains so low that it is "effectively meaningless."<sup>230</sup>

The Public Representative notes that in FY 2018 Competitive products contributed approximately 24.7 percent to institutional costs. PR Comments at 71-72. She therefore states that the appropriate contribution requirement would have been met under either the 5.5 percent requirement or the formula-based approach. *Id.* at 72.

In their reply comments, the Postal Service, Amazon, and PSA all assert that issues having to do with the appropriate contribution requirement are not relevant to a compliance review such as the instant proceeding, but should rather have been raised in Docket

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<sup>226</sup> Comments of Taxpayers Protection Alliance, January 31, 2019, at 1-2 (TPA Comments).

<sup>227</sup> TPA Comments at 2. For further discussion of TPA's comments as they relate to costing methodology, see section 4.E., *infra*.

<sup>228</sup> SBE Council Comments at 1-2; Comments of the National Taxpayer's Union, February 25, 2019, at 2 (NTU Comments).

<sup>229</sup> SBE Council Comments at 1-2. SBE Council appears to quote the formula-derived appropriate share for FY 2019—8.8 percent—instead of the formula-derived appropriate share for FY 2018, which would have been 8.6 percent. See Order No. 4963 at 28, Table III-1.

<sup>230</sup> UPS Comments at 4.

No. RM2017-1, where the Commission most recently reviewed the appropriate contribution methodology.<sup>231</sup>

## 2. Commission Analysis

As an initial matter, the Commission declines to revisit the appropriate contribution methodology in this compliance proceeding. All parties had an opportunity to comment on the new methodology in Docket No. RM2017-1. The purpose of this proceeding is to assess whether the Postal Service complied with the appropriate contribution requirement for FY 2018 and to provide the required appropriate share for FY 2019 and FY 2020. The Commission addresses this latter issue using the new, formula-based methodology.

### a. FY 2018 Appropriate Share

In FY 2018, the total institutional costs of the Postal Service were \$30.7 billion.<sup>232</sup> To comply with 39 U.S.C. § 3633(a)(3) for FY 2018, Competitive products collectively must have contributed at least \$1.690 billion toward the Postal Service's institutional costs. *Id.*, tab "Income\_C," cell I25. In FY 2018, the total contribution made by Competitive products collectively to institutional costs was \$7.6 billion<sup>233</sup> (approximately 24.7 percent of total institutional costs), which exceeds the 5.5 percent requirement. Therefore, the Postal Service was compliant with 39 U.S.C. § 3633(a)(3).

*The Commission finds that in FY 2018 Competitive products satisfied 39 U.S.C. § 3633(a)(3) by covering an appropriate share of the Postal Service's institutional costs.*<sup>234</sup>

### b. FY 2019 and FY 2020 Appropriate Share

In this section, the Commission addresses what the appropriate share will be for FY 2019 and FY 2020, using the new, formula-based approach. First, however, the Commission provides an overview of the formula.

#### (1) Formula Overview

The first component of the formula is the Competitive Contribution Margin. This component measures the Postal Service's absolute market power, which is the Postal Service's ability to charge its customers prices for Competitive products "that are higher than the marginal cost of producing those products." Order No. 4963 at 22. It is calculated as follows:

<sup>231</sup> Postal Service Reply Comments at 12; Reply Comments of Amazon.com Services, Inc., March 1, 2019, at 3 (Amazon Reply Comments); Reply Comments of the Parcel Shippers Association, March 4, 2019, at 1, 4 (PSA Reply Comments). PSA also filed a motion for late acceptance of its reply comments. PSA Motion for Late Acceptance of Reply Comments, March 4, 2019 (PSA Motion). The PSA Motion is granted.

<sup>232</sup> PRC-LR-ACR2018/1, tab "Appendix A (Incremental Costs)," cell D79.

<sup>233</sup> *Id.*, tab "Appendix A (Incremental Costs)," cell F21.

<sup>234</sup> The Commission notes that the 24.7 percent contribution level in FY 2018 would have satisfied the appropriate share requirement even if the formula-based approach were applicable to FY 2018. The formula-derived appropriate share would have been 8.6 percent. See Order No. 4963 at 28, Table III-1.

$$\text{Competitive Contribution Margin} = \frac{\text{Total Revenue} - \text{Total Attributable Cost}}{\text{Total Revenue}}$$

*Id.* at 23. “Total attributable cost” refers to the cost incurred by the Postal Service in producing Competitive products collectively. *Id.* at 23-24. “Total revenue” refers to the total amount of revenue that the Postal Service is able to realize from its Competitive products collectively. *Id.* at 24.

The second component of the formula is the Competitive Growth Differential. This component assesses the growth or decline in the Postal Service’s market position from year to year. The Postal Service’s market position is defined as the size of the Postal Service’s Competitive product business relative to that of its competitors. *Id.* at 25. It is calculated as follows:

$$\begin{aligned} \text{Competitive Growth Differential} \\ = \text{Market Share}_{USPS} * (\% \Delta \text{Revenue}_{USPS} - \% \Delta \text{Revenue}_{C\&M}) \end{aligned}$$

*Id.* “ $\text{Market Share}_{USPS}$ ” refers to the Postal Service’s share of the overall parcel delivery market, expressed as a percentage. It “is determined by dividing the Postal Service’s total competitive product revenue by the sum of the Postal Service’s total competitive product revenue” and the total revenue earned by the Postal Service’s competitors collectively, as represented in the following equation:

$$\text{Market Share}_{USPS} = \frac{\text{Revenue}_{USPS}}{\text{Revenue}_{USPS} + \text{Revenue}_{C\&M}}$$

*Id.* at 25 n.54. “ $\% \Delta \text{Revenue}_{USPS}$ ” refers to the percentage change in the Postal Service’s total real Competitive product revenue compared to the previous year. *Id.* at 25. “ $\% \Delta \text{Revenue}_{C\&M}$ ” refers to the percentage change in the total real revenue earned by the Postal Service’s competitors collectively compared to the previous year. *Id.*

With the forgoing component values, the appropriate share for a given fiscal year can be calculated using the formula adopted by the Commission in Order No. 4963. Specifically, the formula is:

$$\begin{aligned} AS_{t+1} &= AS_t * (1 + \% \Delta CCM_{t-1} + CGD_{t-1}) \\ \text{If } t = 0 &= \text{FY 2007, } AS = 5.5\% \end{aligned}$$

Where,

AS = Appropriate Share

CCM = Competitive Contribution Margin

CGD = Competitive Growth Differential

t = Fiscal Year

*Id.* at 26. “ $AS_t$ ” refers to the appropriate share value for the fiscal year during which an ACD proceeding is being conducted. Since the ACD is conducted after the close of each fiscal year, this will always be the fiscal year immediately following the fiscal year under review. For example, this ACD evaluates compliance for FY 2018, but is being conducted in FY 2019, and, as it relates to the formula, is being used to determine what the appropriate share will be in FY 2020. “ $AS_{t-1}$ ” refers to the appropriate share value from the fiscal year being evaluated during an ACD proceeding (for purposes of the present analysis, this is FY 2018). “ $AS_{t+1}$ ” refers to the appropriate share value for the fiscal year after the fiscal year during which an ACD proceeding is being conducted (for purposes of the present analysis, this is FY 2020).

### (2) FY 2019 Appropriate Share

The appropriate share formula is recursive. *Id.* at 27. In Docket No. RM2017-1, the Commission advised that in order to initiate the formula’s recursive process, it would likely be necessary for the first appropriate share following the issuance of the final rule to be announced in the final rulemaking order, as opposed to being announced in an ACD.<sup>235</sup> In Order No. 4963, the final rulemaking order, the Commission determined that the formula-derived appropriate share for FY 2019 would be 8.8 percent. Order No. 4963 at 28, Table III-1. Therefore, 8.8 percent is the figure that will be used to determine compliance with the appropriate share in FY 2019.

### (3) FY 2020 Appropriate Share

The Commission now applies the formula in order to determine the FY 2020 appropriate share. For the Competitive Contribution Margin, in FY 2018 the total Competitive product revenue was \$23.1 billion. The FY 2018 total attributable cost incurred in producing Competitive products was \$15.5 billion. Therefore, the Competitive Contribution Margin value was  $\frac{23.1 \text{ billion} - 15.5 \text{ billion}}{23.1 \text{ billion}} = 0.329$ , representing a 0.1% increase from FY 2017.<sup>236</sup>

For the Competitive Growth Differential, the Commission calculates the growth rates for both the Postal Service and its competitors in FY 2018. In FY 2017, the Postal Service’s total real Competitive product revenue was \$17.5 billion, while in FY 2018 it was \$19.0 billion. The percentage change from FY 2017 to FY 2018 was 8.8 percent. In FY 2017, the total real revenue earned by the Postal Service’s competitors collectively was \$72.9 billion, while in FY 2018 it was \$77.8 billion. The percentage change from FY 2017 to FY 2018 was 6.8 percent. The Postal Service’s market share was 19.4 percent. The Competitive Growth Differential value for FY 2018 was thus  $19.4\% * (8.8\% - 6.8\%) = 0.4\%$ . See PRC-LR-ACR2018/10.

<sup>235</sup> Docket No. RM2017-1, Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, February 8, 2018, at 30 n.53 (Order No. 4402).

<sup>236</sup> The following calculations can also be found in a library reference accompanying this Report. See PRC-LR-ACR2018/10.



When the component values are plugged into the formula, the result is  $8.8\% * (1 + 0.1\% + 0.4\%) = 8.8\%$ . Therefore, the appropriate share requirement for FY 2020 will be 8.8 percent.

c. FY 2018 Competitive Product Fund Transfer

In FY 2018, the Postal Service transferred \$3.545 billion from the Competitive Products Fund to the Postal Service Fund, which the Postal Service represented was “a prepayment of current and future year’s institutional costs.”<sup>237</sup> As the Commission found in Order Nos. 1449 and 2329, the Postal Service is not permitted to prepay future years’ institutional costs.<sup>238</sup> While “the Postal Service is permitted by 39 C.F.R. § 3015.7(c) to pay greater than the . . . appropriate share set by the rule” to access funds in the Competitive Products Fund, “any transfers categorized by the Postal Service as prepayments of future years’ institutional costs cannot be used to offset the requirement that [C]ompetitive products cover the appropriate share of institutional costs each year.” Order No. 2329 at 5-6. As a result, to comply with 39 U.S.C. § 3633(a)(3) in future years, the revenues from Competitive products must, in each fiscal year, satisfy the requirements of 39 U.S.C. § 3633(a)(3). Order No. 1449 at 26; Order No. 2329 at 5-6. The Commission reaffirmed this conclusion in the FY 2017 ACD. *See* FY 2017 ACD at 92-93. In response to a CHIR pointing out that there can be no “prepayment” of future years’ institutional costs, the Postal Service asserts that “[t]he referenced statement . . . was not intended to contradict the Commission’s prior determination that the Postal Service cannot offset its regulatory obligation to comply with the appropriate share each year through a ‘prepayment’ of institutional costs in a prior year.” Responses to CHIR No. 14, question 10. The Postal Service explains that “[t]he statement that the Postal Service was transferring these amounts as a prepayment was simply intended to reflect that those amounts would be available, once transferred in January 2018, to cover the Postal Service’s institutional costs moving forward.” *Id.* The Postal Service further assures that “given the concerns expressed by the Commission, the Postal Service’s next report . . . will include new language.” *Id.* The Commission accepts the Postal Service’s representations with regard to this issue.

## E. Other Issues Raised by Commenters

The scope of the Commission’s annual compliance review is limited to determining the compliance of the Postal Service’s rates and services in FY 2018. 39 U.S.C. § 3653(b). The statute allocates 90 days for the Commission to complete its review and issue its determinations. *Id.* In that limited time, the Commission focuses its review on compliance during the previous fiscal year, and does not review or approve changes to existing costing methodologies. In reviewing the ACR, the Commission applies its previously-approved methodologies to determine compliance.

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<sup>237</sup> Library Reference USPS–FY18–39, December 28, 2018, file “USPS–FY18–39.Preface.CPF.Report.pdf,” at 3.

<sup>238</sup> Order No. 1449 at 26; Docket No. PI2013-1, Final Order on Competitive Products Fund Inquiry, January 23, 2015, at 5-6 (Order No. 2329).

The Commission works continuously to improve its costing methodologies in separate dockets that do not have statutorily-imposed deadlines.<sup>239</sup> As the Commission has previously stated, issues relating to costing methodology for Competitive products are appropriately addressed in those separate proceedings. *See* FY 2017 ACD at 93. A few commenters, however, express disagreement in this docket with the Commission's existing costing methodologies, particularly for Competitive products.

## 1. United Parcel Service Comments

As in past years, UPS filed comments in this docket contending that the Commission's costing methodologies understate the costs attributable to Competitive products.<sup>240</sup> UPS relies on examples that it describes as "specific deficiencies in the Postal Service's costing methodologies" from which it tries to extrapolate a general conclusion that "[t]he resulting levels of cost attribution do not hold up." *See* UPS Comments at 2-3.

UPS's concerns are outside the scope of this compliance review. While these comments are appropriately addressed in other proceedings, the Commission responds to UPS's comments because they reflect a misunderstanding of the accepted cost allocation methodologies. In this section, the Commission outlines why UPS's examples do not amount to evidence that the Commission's methodologies systematically under-allocate costs to Competitive products.

### a. Historical Context

As far back as the first omnibus rate case before the Postal Rate Commission in the early 1970s, UPS has argued that the attribution of costs to products is too low and amounts to unfair competition.<sup>241</sup> The Commission has consistently held that, under the applicable statute, reliable proof of cost causation is necessary to "attribute" costs to products or

<sup>239</sup> *See, e.g.*, Docket No. RM2016-13, Order Adopting Final Rules on Changes Concerning Attributable Costing, December 1, 2016 (Order No. 3641).

<sup>240</sup> *See* UPS Comments at 1-4; Initial Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2017, February 1, 2018, at 1-4.

<sup>241</sup> *See, e.g.*, Docket No. R71-1, Opinion and Recommended Decision, June 5, 1972, Volume I at 196-201; Docket No. R74-1, Opinion and Recommended Decision, August 28, 1975, at 94, 124; Docket No. R76-1, Opinion and Recommended Decision, June 30, 1976, Volume I at 243; Docket No. R77-1, Opinion and Recommended Decision, May 12, 1978, Volume I at 386-87, 394; Docket No. R80-1, Opinion and Recommended Decision, February 19, 1981, Volume I at 476, 489-90; Docket No. R84-1, Opinion and Recommended Decision, September 7, 1984, Volume I at 549; Docket No. R87-1, Opinion and Recommended Decision, March 4, 1988, Volume I at 697; Docket No. R90-1, Opinion and Recommended Decision, January 4, 1991, Volume I at V.335-36; Docket No. R94-1, Opinion and Recommended Decision, November 30, 1994, at V.112-13; Docket No. R97-1, Opinion and Recommended Decision, May 11, 1998, Volume I at 478-79; Docket No. R2000-1, Opinion and Recommended Decision, November 13, 2000, Volume I at 468-69; *see* Docket No. RM2012-3, Initial Comments of United Parcel Service on Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, April 9, 2012; *see* Docket No. RM2012-3, Reply Comments of United Parcel Service on Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, May 7, 2012; *see* Docket No. RM2016-2, Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, October 8, 2015; *see* Docket No. RM2017-1, Initial Comments of United Parcel Service, Inc. on Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, January 23, 2017; *see* Docket No. RM2017-1, Reply Comments of United Parcel Service, Inc. on Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, March 9, 2017.

classes.<sup>242</sup> This approach to costing was affirmed by the Supreme Court,<sup>243</sup> and the requirement that cost attribution be based on “reliably identified causal relationships” was codified in the PAEA when it was enacted in 2006.<sup>244</sup> Under the Commission’s costing methodology, costs which cannot be causally attributed to a specific product or class, or to the Competitive product group, are treated as institutional, and Competitive products are required to collectively cover an appropriate share of institutional costs.<sup>245</sup> The Commission has also consistently found that the Postal Service does not engage in predatory pricing for its Competitive products, nor does it benefit from a competitive advantage in the marketplace.<sup>246</sup>

In ensuring that costing methodologies are fully vetted and accurate, the Commission’s regulations provide that either the Commission or any interested person may submit a petition to initiate a proceeding to “improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service’s annual periodic reports to the Commission[.]” 39 C.F.R. § 3050.11(a). These proceedings fall outside the scope of the Commission’s annual compliance review, and the commenters are aware of the proper procedure for filing a petition for a change to a costing methodology. For example, in Docket No. RM2016-2, UPS petitioned the Commission for three proposed methodological changes that would have affected cost attribution.<sup>247</sup> Two of the proposed methodology changes would have expanded the range of costs which are attributable to specific products, and one would have increased the amount that Competitive products must contribute to the Postal Service’s institutional costs. *See id.* The Commission rejected UPS’s first proposal, but in the course of reviewing the proposal, updated its costing methodology to reflect certain additional inframarginal costs bearing a “reliably identified causal relationship” to products, classes, or groups. Order No. 3506 at 59-62. Of the other two proposals, the Commission rejected one after finding that it would not improve the quality, accuracy, or completeness of the Commission’s existing methodology, and addressed the other relating to the required appropriate share of contribution for Competitive products

<sup>242</sup> *See, e.g.*, Docket No. R74-1, Opinion and Recommended Decision, August 28, 1975, Volume I at 93; Docket No. R76-1, Opinion and Recommended Decision, June 30, 1976, Volume I at 75-76; Docket No. R84-1, Opinion and Recommended Decision, September 7, 1984, Volume I at 117; Order No. 3506; Docket No. RM2016-2, Notice of Errata, October 19, 2016 (Docket No. RM2016-2, Notice of Errata); Order No. 4963 at 2.

<sup>243</sup> *See Nat’l Ass’n of Greeting Card Publishers v. USPS*, 462 U.S. 810 (1983).

<sup>244</sup> Pub. Law 109-435, 120 Stat. 3198, 3201, 3205-06 (Dec. 20, 2006) (codified at 39 U.S.C. §§ 3622(c)(2), 3631(b), 3633(a)(2)).

<sup>245</sup> *See* 39 U.S.C. § 3633(a)(3). The Commission reviews and determines Competitive products’ appropriate share of contribution to institutional costs every 5 years. 39 U.S.C. § 3633(b).

<sup>246</sup> *See, e.g.*, Docket No. R74-1, Opinion and Recommendation, August 28, 1975, at 290; Docket No. R76-1, Opinion and Recommended Decision, June 30, 1976, Volume I at 247-48; Docket No. R77-1, Opinion and Recommended Decision, May 12, 1978, Volume I at 394-99; Docket No. R80-1, Opinion and Recommended Decision, February 19, 1981, Volume I at 490-94; Docket No. R84-1, Opinion and Recommended Decision, September 7, 1984, Volume I at 550-53; Docket No. R87-1, Opinion and Recommended Decision, March 4, 1988, Volume I at 714-15; Docket No. R90-1, Opinion and Recommended Decision, January 4, 1991, Volume I at V.336-40; Docket No. R94-1, Opinion and Recommended Decision, November 30, 1994, at V.113-15; Docket R97-1, Opinion and Recommended Decision, May 11, 1998, Volume I at 479-80; Docket No. R2000-1, Opinion and Recommended Decision, November 13, 2000, Volume I at 473; Docket No. R2006-1, Order and Recommended Decision, February 26, 2007, Volume I at 387-88; Order No. 26 at 73-74; Order No. 1449 at 14-25; Order No. 4963 at 107-167.

<sup>247</sup> *See* Docket No. RM2016-2, Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, October 8, 2015.

to make towards institutional costs in another docket, which the Commission was required to separately consider. Order No. 3506 at 105, 123. Order No. 3506 was affirmed by the U.S. Court of Appeals for the D.C. Circuit.<sup>248</sup> The Commission subsequently considered the appropriate share requirement in Docket No. RM2017-1, and as a result of that review adopted an improved formula-based approach to determine the appropriate share. *See generally*, Order No. 4963. UPS actively participated in that docket and has also been an active commenter in similar petitions filed by the Postal Service to modify existing costing methodologies.<sup>249</sup>

#### b. Specific Issues Raised by UPS

UPS features several of the same issues in this docket that it has raised in past ACR dockets and other Commission proceedings.

As a general matter, UPS states that Competitive products make up 45 percent of the Postal Service's "delivery volume by weight," which it contrasts with the attribution of 18 percent of the Postal Service's total costs to Competitive products.<sup>250</sup> This observation is oversimplified and could be considered misleading because it implies a one-to-one relationship between weight and cost. Postal costs are not incurred solely on the basis of weight. The Commission's cost attribution methodology identifies relationships between numerous costs and cost drivers, which include mail characteristics such as weight. To the extent heavier products incur more weight-related costs than lighter products these costs are attributed using the approved methodologies. Order No. 4402 at 46. In addition, shippers lower their costs by entering their packages into the Postal Service's network closer to the destination, bypassing many of the processing costs. Such packages will incur disproportionately low costs in comparison to their weight, which will necessarily result in a greater increase in Competitive products' share of "delivery volume by weight" than in Competitive products' share of attributable costs. This example illustrates that the difference between these two values is not, as UPS suggests, a demonstration of misattribution of costs, but instead is an entirely expected result.<sup>251</sup>

UPS asserts that only 18 percent of the Postal Service's total costs are attributed to Competitive products. However, the 18 percent figure cited by UPS is the percentage of total costs, rather than attributable costs.<sup>252</sup> A full 35 percent of the Postal Service's

<sup>248</sup> See *UPS v. Postal Reg. Comm'n*, 890 F.3d 1053 (D.C. Cir. 2018), *petition for cert. filed* (U.S. Dec. 26, 2018) (No. 18-853).

<sup>249</sup> See, e.g., Docket No. RM2008-6, Costing Methods Used in Periodic Reporting (Proposals Ten and Eleven); Docket No. RM2015-7, Proposed Change in Analytical Principles (Proposal Thirteen); Docket No. RM2016-12, Proposed Change in Analytical Principles (Proposal Four); Docket No. RM2017-8, Proposed Change in Analytical Principles (Proposal Four); Docket No. RM2017-9, Proposed Change in Analytical Principles (Proposal Five); Docket No. RM2017-10, Proposed Change in Analytical Principles (Proposal Six); Docket No. RM2018-2, Revise Periodic Reporting Requirements; Docket No. RM2018-5, Proposed Change in Analytical Principles (Proposal Two); Docket No. RM2018-6, Proposed Change in Analytical Principles (Proposal Three); Docket No. RM2018-8, Proposed Change in Analytical Principles (Proposal Five).

<sup>250</sup> As calculated by the Commission, 21 percent of total costs were attributed to Competitive products. See PRC-LR-ACR2018/1, Excel file "Summary\_LR1.xlsx," tab "Appendix A (Incremental Costs)," cells D21 and D83.

<sup>251</sup> Many of the Postal Service's costs are not weight-dependent, so even in the absence of the trend towards increasing use of dropshipping, the Commission would still not expect "delivery volume by weight" to closely track Competitive products' share of costs.

<sup>252</sup> See n.12, *supra* (discussing the Commission's calculated value of 21 percent instead of 18 percent).

attributable costs are attributed to Competitive products.<sup>253</sup> This is true despite the fact that Competitive products make up only 3.9 percent of total volume.<sup>254</sup> The average attributable cost per piece for Competitive products is \$2.73,<sup>255</sup> compared to the average attributable cost per piece of Market Dominant mail, which is \$0.19.<sup>256</sup> This difference in attributable cost per piece demonstrates that the costing methodology attributes costs based on the factors that drive those costs. UPS has consistently advocated in favor of fully-distributed costing, but given the statutory requirements that costs, to be attributable, must bear a reliably identified causal relationship to the product, class, or group, not all costs can be attributed to specific products, classes, or groups.<sup>257</sup> In addition, as the Commission has discussed in previous dockets, under sound regulatory economic practices, not all costs should be attributed.<sup>258</sup> Therefore, reliance on the proportion of total costs apportioned to Competitive products is particularly inapt.

(1) Issues Pertaining to Cost Attribution of Specific Activities

In addition to its general observations about the attribution of costs for Competitive products, UPS makes more specific claims regarding the purported under-attribution to Competitive products of costs incurred by new vehicles, handheld scanners, and parcel lockers. UPS Comments at 8-11, 13-16.

With regard to vehicle costs, UPS notes the increasing size of delivery vehicles and observes that there has not been a concomitant increase in the allocation of vehicle related costs to Competitive products, claiming that, as a result, vehicle costs are under attributed to Competitive products. *See id.* at 8-9. UPS points to motor vehicle service personnel, supplies, and materials, along with vehicle depreciation, as examples of how the new vehicles are being costed similarly to the older vehicles. *Id.* at 9. Vehicle costs are attributed primarily in proportion to delivery costs, which are attributed based on direct labor costs. Reflective of the variation in size and shape, direct labor costs are much higher for parcels than other mail items. Consequently, as the number of parcels increases, a greater share of vehicle costs will be attributed to parcels. *See Order No. 4963 at 151-52.*

UPS also contends that the costs of handheld scanners are under attributed to Competitive products. UPS Comments at 13-15. In particular, UPS claims that only 8 percent of Intelligent Mail Device (IMD) and 9 percent of Mobile Delivery Device (MDD) *total* depreciation costs are attributed to domestic Competitive products. *Id.* at 14. These calculations are misleading; 15 percent of IMD and 20 percent of MDD *attributable*

<sup>253</sup> See PRC-LR-ACR2018/1, Excel file "Summary\_LR1.xlsx," tab "Appendix A (Incremental Costs)," cells D21 and D78.

<sup>254</sup> See PRC-LR-ACR2018/1, Excel file "Summary\_LR1.xlsx," tab "Appendix A (Incremental Costs)," cells B21 and B78.

<sup>255</sup> See PRC-LR-ACR2018/1, Excel file "Summary\_LR1.xlsx," tab "Appendix A (Incremental Costs)," cell H21.

<sup>256</sup> See PRC-LR-ACR2018/1, Excel file "Summary\_LR1.xlsx," tab "Appendix A (Incremental Costs)," cell H55.

<sup>257</sup> See section 4.E.1.a., *supra*.

<sup>258</sup> See generally, Order No. 3506; Docket No. RM2016-2, Notice of Errata; Order No. 4402; Order No. 4963.

depreciation costs are attributed to domestic Competitive products.<sup>259</sup> UPS also asserts that the “low level of competitive product cost attribution does not make sense given the Postal Service’s own statements to the effect that these devices were purchased to support parcel delivery.” UPS Comments at 15. UPS is incorrect in asserting that IMD and MDD scanners are used primarily for tracking package delivery. IMD scanners are used at certain locations to track the acceptance of all types of mailpieces bearing barcodes, in addition to being used to track the delivery of packages.<sup>260</sup> MDD scanners are used to track service performance for all types of mailpieces, in addition to being used to track the delivery of packages.<sup>261</sup>

UPS also states that the costs associated with parcel lockers are not properly attributed to Competitive products. It states that the Postal Service appears to be using ordinary distribution keys for cost attribution rather than attributing the purchase, installation, and maintenance costs associated with parcel lockers to Competitive products. UPS Comments at 15. Contrary to UPS’s implication, the use of ordinary distribution keys to attribute costs for parcel lockers to Competitive products is entirely appropriate. The Postal Service states that parcel lockers are installed as part of, or adjacent to, Cluster Box Units (CBUs),<sup>262</sup> to which all types of mail are delivered, not only Competitive products. The Postal Service notes that in previous years parcel lockers were included as part of CBUs and that the number of such units is a function of the number of delivery points rather than volume, requiring that they be treated as institutional costs. *Id.* Recently parcel lockers have additionally been installed adjacent to already existing CBUs. *Id.* The Postal Service states that, as a result, the relationship between parcel volume and equipment costs for parcel lockers may be shifting, and that it intends to further investigate this issue. *See id.* The Commission notes that it was its own inquiry into this potential issue that UPS cited to support its comment.<sup>263</sup> The Commission is monitoring this issue and intends to follow-up on the Postal Service’s investigation of cost attribution for the installation of parcel lockers.

## (2) Issues Pertaining to Costing Methodology

UPS also identifies several costing methodologies related to peak season: Special Purpose Routes (SPRs), second runs, two-hour delivery, Competitive assets, and city carrier time

<sup>259</sup> See Library Reference USPS–FY18–31, December 28, 2018, Excel File “FY18Public.A.xlsx,” tab “CS98.2.” See also section 4.E.1., *supra* (discussing the difference between percent of total costs and percent of attributable costs).

<sup>260</sup> See Suzanne Newman, *Intelligent Mail Device (IMD) Full Acceptance Non-Retail System Software (RSS) Sites*, October 5, 2017, at 3, 10 (available at: <https://postalpro.usps.com/storages/2017-10/IMD%20Full%20Acceptance%20at%20Non-RSS%20Sites%20External%20Briefing.pdf>) (describing use of IMD scanners for acceptance of barcoded mail); United States Postal Service Office of the Inspector General, *Package Delivery Scanning Nationwide*, October 27, 2017, at 1 (available at: <https://www.uspsoig.gov/sites/default/files/document-library-files/2017/DR-AR-18-001.pdf>) (OIG Scanner Report) (describing use of IMD scanners for delivery scanning when MDD scanners are unavailable).

<sup>261</sup> See Docket No. PI2015-1, Library Reference USPS–LR–PI2015-1/8, February 23, 2017, file “Internal SPM Plan blackline.pdf,” at 19-20 (describing use of MDD scanners for service performance tracking); OIG Scanner Report at 1 (describing use of MDD scanners for delivery scanning).

<sup>262</sup> See Responses of the United States Postal Service to Questions 1-12 of Chairman’s Information Request No. 5, February 5, 2019, question 6.b. (Responses to CHIR No. 5).

<sup>263</sup> See UPS Comments at 15 (citing to Postal Service responses to CHIRs).

estimates that it claims do not allocate sufficient costs to Competitive products. *See* UPS Comments at 5-8, 11-13, 16-18, 19-22.

UPS alleges that during the peak holiday season, the Postal Service incurs higher costs due to a seasonal increase in Competitive product volume, but only a small fraction of these costs are attributed to Competitive products. UPS Comments at 5-6. As a result, it contends that the costing methodology should be changed to more closely reflect seasonal trends. This conclusion by UPS that seasonal trends are not reflected is incorrect. This assertion overlooks the fact that the Commission's costing methodology is designed to estimate costs on an annual basis, so any seasonal differences are captured in the annual totals. Distribution keys for costs are created on a quarterly basis<sup>264</sup>—to the extent that parcel volume is greater in one quarter than in others, the current methodology incorporates and reflects those data. The Commission also notes that demand for both Competitive and Market Dominant products increases during peak season, and, as a result, seasonal increases in costs are not exclusively attributable to Competitive products.<sup>265</sup>

For SPRs and second runs, UPS identifies an area where the Postal Service has acknowledged that existing methodologies have room for improvement.<sup>266</sup> This issue pertains to the measurement of time, costs, and volumes associated with second runs, and the estimation of SPR costs for each product. UPS contends that these second run data should be better measured and the SPR cost model should be updated. The Commission recently approved a methodological change to more accurately assess workhours on all types of delivery routes and the Commission continues to monitor these issues. *See* Order No. 4399.

Regarding 2-hour delivery, UPS notes the Postal Service's intention to expand the service, but observes that cost attribution for this expansion remains unknown. UPS Comments at 16. The Commission notes that a similarly time sensitive feature, same-day delivery, is offered through Competitive NSAs.<sup>267</sup> The Commission reviews such agreements under 39 U.S.C. § 3633(a) and 39 C.F.R. § 3015.5. In its review process, the Commission closely scrutinizes such agreements to ensure that costs incurred by special features, such as same-day delivery, are attributed to those individual agreements, and thus to Competitive products.

For its claims pertaining to Competitive assets, UPS notes that only \$1.8 million of total net assets and liabilities are assigned to the Competitive Products Fund despite Competitive products producing \$23 billion in revenue. *See* UPS Comments at 16. This comparison is not relevant. The Commission's rules require the Postal Service to separately identify all

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<sup>264</sup> *See* Library Reference USPS–FY18–37, December 28, 2018, file “usps-fy18-37.preface.pdf,” at 6.

<sup>265</sup> *See* United States Postal Service, Postal Service Econometric Estimates of Demand Elasticity for All Postal Products, FY 2018, January 28, 2019.

<sup>266</sup> UPS Comments at 11-12 (citing to Postal Service responses to CHIRs).

<sup>267</sup> *See, e.g.*, Docket Nos. MC2018-149 and Docket No. CP2018-215.

assets used *solely* for the provision of Competitive products. 39 C.F.R. § 3060.12(a). The Postal Service has identified \$1.8 million of net assets used strictly for Competitive products. However, the Commission's rules also require the Postal Service to identify an additional portion of overall assets and liabilities to assign to Competitive products, based on the ratio of Competitive product revenue to total revenue.<sup>268</sup> The latter allocation includes \$8.7 billion in assets assigned to Competitive products, far more than UPS asserts.<sup>269</sup>

Finally, UPS identifies two issues relating to city carrier street time that it characterizes as "outstanding" and that warrants the Commission's attention. UPS Comments at 19. First, UPS identifies the continued need for an alternative approach to measuring city carrier street time variability. *Id.* at 20. Second, UPS claims to identify a seasonal bias in the route evaluations used to estimate city carrier street time that results in underestimating Competitive product costs. *Id.* at 21. For the first issue, related to Docket No. RM2015-7, the Commission is continuing to investigate the potential for an alternative approach to estimating city carrier street time variability. To that end, the Commission recently instructed the Postal Service to collect and report data on a quarterly basis.<sup>270</sup> For the second issue, UPS misconstrues the Commission's conclusions in Docket No. RM2017-8. In that docket the Commission determined that because the Postal Service diverts packages from letter routes to SPRs during peak season to accommodate increased letter and package volume, it is unclear that any potential seasonal bias in sampling letter routes will under attribute costs to Competitive products.<sup>271</sup> As such, UPS is incorrect when it definitively claims that "[the Commission] underestimates the proportions that are allocated to parcels." See UPS Comments at 21-22.

### (3) Conclusion

In addition to being outside the scope of the ACD, UPS's comments present a misunderstanding of the approved costing methodologies.

## 2. Other Comments

ACI argues that parcels now account for 50 percent of delivery weight, so Competitive products should be expected to support most of the capital expenditures and depreciation associated with last-mile delivery vehicles. ACI Comments at 2-3. ACI concurs with a recent report issued by a Presidential Task Force recommending that the Postal Service's

<sup>268</sup> 39 C.F.R. § 3060.12(c) requires the Postal Service to identify assets that are not used solely for either Market Dominant or Competitive products, and to assign to the theoretical Competitive product enterprise a portion of such assets "using a method of allocation based on appropriate revenue or cost drivers approved by the Commission." In Docket No. RM2009-9, the Commission approved a methodology for allocating such assets based on the ratio of Competitive product revenue to total revenue. See Docket No. RM2009-9, Order Establishing Methodology for the Allocation of Assets and Liabilities of the Competitive Products Enterprise, June 25, 2010 (Order No. 479).

<sup>269</sup> USPS-FY18-39, file "USPS-FY18-39.Preface.CPF.Report.pdf," at table 4.

<sup>270</sup> See Docket No. PI2017-1, Interim Order, November 2, 2018 (Order No. 4869).

<sup>271</sup> Docket No. RM2017-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), December 1, 2017, at 19-20 (Order No. 4259).



Competitive product balance sheet be fully separated from its Market Dominant balance sheet and that the Postal Service be required to implement fully allocated costing.<sup>272</sup>

TPA claims that NSAs are required by 39 U.S.C. § 3622(c)(10) to “[i]mprove the net financial position of the Postal Service” or “[e]nhance the performance of operational functions.”<sup>273</sup> TPA further claims that the Commission “implicitly assumed that packages only contributed 5.5 percent of [institutional] costs,” rising to 8.8 percent in 2019, and that as a result the Commission’s calculations show that Competitive products are profitable “despite losing the agency a significant amount of money.”<sup>274</sup>

Other commenters disagree that current costing methodologies are flawed, and contend that this docket is not the appropriate forum for proposing changes to those methodologies.

Amazon states that UPS’s comments amount to a restatement of past disagreements with Commission approved costing methods. Amazon Reply Comments at 1. Amazon describes UPS’s evidence as anecdotal, and points out that the Commission’s process for proposing changes to its cost models are “well-established and transparent.” *Id.* at 2. Amazon urges the Commission to find that Competitive products are in compliance with all statutory requirements. *Id.* at 6.

PSA states that current approved cost methodologies already capture the increasing volume shift towards Competitive products, and thus that UPS’s claim otherwise is based on a misunderstanding of those methodologies. PSA Reply Comments at 1-2. PSA notes that the Commission “regularly reviews and approves changes to methods that have been shown to improve the accuracy of Postal Service cost estimates,” identifying 45 approved changes in the last 5 years. *Id.* at 2.

The Postal Service notes that “[a]lthough [TPA] questions the wisdom of the Postal Service’s overall strategy for competitive NSAs and other contracts, TPA does not contend that those agreements violate Section 3633 or any other relevant provisions.” Postal Service Reply Comments at 16. The Postal Service also notes that the Commission has “declined to address criticisms of cost attribution and allocation methodologies in past annual compliance reviews.” *Id.* at 15.

None of these commenters raise issues that call into question the Commission’s compliance determinations. At most, the commenters have pointed to specific aspects of the cost

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<sup>272</sup> *Id.* at 3 (citing United States Postal Service, *A Sustainable Path Forward, Report from the Task Force on the United States Postal System*, December 2018 (available at: [https://home.treasury.gov/system/files/136/USPS\\_A\\_Sustainable\\_Path\\_Forward\\_report\\_12-04-2018.pdf](https://home.treasury.gov/system/files/136/USPS_A_Sustainable_Path_Forward_report_12-04-2018.pdf)).

<sup>273</sup> TPA Comments at 1. The Commission notes that 39 U.S.C. § 3622 applies only to Market Dominant NSAs. See 39 U.S.C. § 3622. Competitive NSAs are instead governed by 39 U.S.C. § 3633, which specifies different statutory requirements. See 39 U.S.C. § 3633.

<sup>274</sup> TPA Comments at 1-2. The Commission notes that it directly calculates the share of institutional costs contributed by Competitive products rather than assuming that such products contribute only the required minimum. See section 4.D., *supra*.

models that the Commission has previously resolved or is already working to improve. The Commission values and invites participation in the appropriate dockets where such improvements are properly considered.

# CHAPTER 5: SERVICE PERFORMANCE

## A. Service Performance Results

### 1. Introduction

Each year, the Postal Service must report<sup>275</sup> on each Market Dominant product's "level of service (described in terms of speed of delivery and reliability)." 39 U.S.C.

§ 3652(a)(2)(B)(i). Speed of delivery is evaluated based on the mailpiece reaching its destination within a given service standard. FY 2016 ACD at 90. The Postal Service defines service standards as "[s]tated delivery performance goals for each mail class and product that are usually measured by days for the period of time taken by [the Postal Service] to handle the mail from end-to-end (that is, from the point of entry into the mailstream to delivery to the final destination)."<sup>276</sup> Reliability refers to consistency of delivery.

To evaluate annual service performance for each Market Dominant product, the Commission compares the percentage of mailpieces that achieve the stated service standard against targets established by the Postal Service.<sup>277</sup>

The products listed in Table V-1 met or exceeded their annual service performance targets for FY 2018.

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<sup>275</sup> "For each product that does not meet a service standard, [the Postal Service's report must include] an explanation of why the service standard is not met, and a plan describing the steps that have or will be taken to ensure that the product meets or exceeds the service standard in the future." 39 C.F.R. § 3055.2(h); see 39 U.S.C. §§ 3652(d), (e).

<sup>276</sup> United States Postal Service Publication 32, Glossary of Postal Terms, July 2013 (available at: [http://about.usps.com/publications/pub32/pub32\\_terms.htm](http://about.usps.com/publications/pub32/pub32_terms.htm)). "Established service standards also include destination entry standards for mail entered by the mailer at or near a postal destination facility. A separate set of standards is established for noncontiguous states such as Alaska and Hawaii and territories such as American Samoa and Guam." *Id.*

<sup>277</sup> FY 2016 ACD at 90. On an annual basis, the Commission compares a product's on-time delivery with the delivery target established by the Postal Service. For Special Services, the Commission evaluates performance data from metrics developed by the Postal Service applicable to each product. *Id.* at 90 n.148. In this ACD, as in past years, the Commission uses the Postal Service's targets because they are a reasonable basis for assessing performance.

**Table V-1**  
**Market Dominant Products That Met or Exceeded Annual Service Performance Targets,**  
**FY 2018**

| Class               | Product  |
|---------------------|--|
| First-Class Mail    |  |
| USPS Marketing Mail | <ul style="list-style-type: none"> <li>• High Density and Saturation Letters</li> <li>• Parcels</li> </ul>   |
| Periodicals         |  |
| Package Services    | <ul style="list-style-type: none"> <li>• Bound Printed Matter Parcels</li> </ul>   |
| Special Services    | <ul style="list-style-type: none"> <li>• Ancillary Services</li> <li>• International Ancillary Services</li> <li>• Money Orders</li> <li>• Stamp Fulfillment Services</li> </ul> |

The products listed in Table V-2 did not meet their targets for FY 2018.

**Table V-2**  
**Market Dominant Products That Failed to Meet Annual Service Performance Targets,**  
**FY 2018**

| Class               | Product   |
|---------------------|---|
| First-Class Mail    | <ul style="list-style-type: none"> <li>• Single-Piece Letters/Postcards (2-Day; 3-5-Day)</li> <li>• Presorted Letters/Postcards (Overnight; 2-Day; 3-5-Day)</li> <li>• Flats (Overnight; 2-Day; 3-5-Day)</li> <li>• Outbound Single-Piece International (Combined)</li> <li>• Inbound Letter Post (Combined)</li> </ul> |
| USPS Marketing Mail | <ul style="list-style-type: none"> <li>• High Density and Saturation Flats/Parcels</li> <li>• Carrier Route</li> <li>• Letters</li> <li>• Flats</li> <li>• Every Door Direct Mail (EDDM) - Retail</li> </ul>  |
| Periodicals         | <ul style="list-style-type: none"> <li>• In-County</li> <li>• Outside County</li> </ul>   |
| Package Services    | <ul style="list-style-type: none"> <li>• Bound Printed Matter Flats</li> <li>• Media Mail/Library Mail</li> </ul>   |
| Special Services    | <ul style="list-style-type: none"> <li>• Post Office Box Service</li> </ul>   |

In the service performance results section of this Chapter, after a summary of the systems the Postal Service uses to measure service performance, the Commission discusses the Postal Service's responses to the directives related to First-Class Mail Single-Piece Letters/Postcards. The Commission then analyzes the Postal Service's FY 2018 service performance results by class of mail.

## 2. Measurement Systems

The Postal Service uses a variety of measurement systems to measure service performance for Market Dominant products. The Postal Service began reporting service performance results for most Market Dominant products in the third quarter of FY 2011.

Table V-3 identifies each system used to measure those products reported in the Postal Service's *Annual Service Performance Report* for FY 2018. In Table V-3, and the discussion that follows, the Commission uses the following acronyms and abbreviations: *EXFC* for "External First-Class Measurement," *iMAPS* for "Intelligent Mail Accuracy and Performance System," *IMb* for "Intelligent Mail barcode," *IMMS* for "International Mail Measurement System," *PTR* for "Product Tracking and Reporting System," and *SASP* for "Seamless Acceptance and Service Performance."

**Table V-3**  
**Service Performance Measurement Systems, FY 2018**

|                      | Single-Piece   |              |                | Presorted      |              |                |
|----------------------|--|--------------|----------------|----------------|--------------|----------------|
|                      | <u>Letters</u>                                       | <u>Flats</u> | <u>Parcels</u> | <u>Letters</u> | <u>Flats</u> | <u>Parcels</u> |
| First-Class Mail     | EXFC   | EXFC         | N/A*           | iMAPS          | iMAPS        | N/A            |
| Periodicals          | N/A  |              |                | iMAPS          | iMAPS        | N/A            |
| USPS Marketing Mail  | N/A  |              |                | iMAPS          | iMAPS        | PTR            |
| Package Services     | N/A  |              | PTR            | N/A            | iMAPS        | PTR            |
| International Mail** | IMMS   | Proxy        | Proxy          | N/A            |              |                |
| Special Services     | Custom-designed internally based measurement systems |              |                |                |              |                |

\* Effective September 3, 2017, the retail (single-piece) price category of First-Class Mail Parcels was transferred from the Market Dominant product list to the Competitive product list by the addition of identical services to the existing First-Class Package Service competitive product. Docket No. CP2017-230, Order Approving Price Adjustment for First-Class Package Service Product, August 9, 2017, at 4 (Order No. 4032).

\*\* For single-piece international mailpieces that are flat- or parcel-shaped, the Postal Service reports relying on proxy data because the affected categories of mail represent a low proportion of volume and receive the same domestic-leg processing as their domestic analogs. Library Reference USPS–FY18–29, December 28, 2018, file "FY18-29 Service Performance Report.pdf," at 3 (FY 2018 Service Performance Report). The EXFC measurement for domestic single-piece First-Class Mail Flats serves as a proxy for flat-shaped Outbound Single-Piece First-Class Mail International and Inbound Letter Post. *Id.* USPS Tracking® data serves as a proxy for parcel-shaped Inbound Letter Post. *Id.*

Source: FY 2018 Service Performance Report at 1-3, 9-11, 14, 16-18, 21-22; USPS–FY18–29, file "FY18-29 Methodologies Report.pdf" (FY 2018 Methodologies Report); Docket No. PI2018-2, United States Postal Service Response to Order No. 4872, December 10, 2018 (Docket No. PI2018-2 Postal Service Response to Order No. 4872), file "3055.5LetterAtt2(RevPlan)Updates.pdf," at 11-12, 98-100 (December 10, 2018 Postal Service Service Performance Measurement Plan).

N/A – Not applicable

### a. External First-Class Measurement System (EXFC)

EXFC is a sampling system managed by an independent contractor. Delivery performance is measured from the street collection box to the delivery mailbox. FY 2018 Service Performance Report at 1. When evaluating delivery performance, test mailers record the time they place First-Class Mail in the collection box. The pieces are deposited before the last collection-time for the collection box. Those test mailpieces are sent to a nationwide

panel of receivers who record when each is delivered. Actual transit time is then compared against First-Class Mail service standards. EXFC provides quarterly service performance measurement scores at the area and district levels.

b. Intelligent Mail Accuracy and Performance System  
(iMAPS)

iMAPS provides an end-to-end service performance measurement by using documented mail arrival time at a designated postal facility to start a measurement clock and an IMb scan by an external, third-party reporter to stop the clock. The measurement involves two distinct steps. The Postal Service obtains processing times based on IMb scans reported through the SASP system. SASP uses data provided by commercial mailers with Full-Service Intelligent Mail, such as acceptance time, payment, and verification, to enable the Postal Service to monitor service delivery and overall performance.<sup>278</sup> Information collected also helps to determine address accuracy, verify the quality of mail preparation, and track individual pieces as they move through the mail system.

Throughout FY 2018, SASP captured data from all Full-Service Intelligent Mail. FY 2018 Service Performance Report at 9, 14. This is combined with a last mile factor that is developed through scans by third-party reporters upon receipt of the mail. Service performance is measured by comparing the overall transit time to the service standards to determine the percentage of mail delivered on time.

c. Product Tracking and Reporting System (PTR)

The Postal Service measures service performance for parcels using PTR, a system that “measures transit time from the time of mailing until the time of delivery for parcels for with USPS Tracking® service.” *Id.* at 10. PTR is based on over-the-counter and delivery confirmation scans of retail products, as well as barcode scans of parcels that utilize the Postal Service’s tracking service.<sup>279</sup> PTR uses the scan data to track a package from acceptance (start-the-clock) through delivery (stop-the-clock). *See id.*

d. International Mail Measurement System (IMMS)

Based on a system similar to EXFC, IMMS measures the domestic leg of transit time for international mail. FY 2018 Service Performance Report at 2. It measures the time between the domestic collection point and the outbound international service center for outbound letters and between the inbound international service center and the domestic delivery point for inbound letters. *Id.*

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<sup>278</sup> United States Postal Service, Guide to Seamless Acceptance, Version 2.1, June 2015 (available at: [http://postalpro.usps.com/storages/2016-12/657\\_GuidetoSeamlessAcceptance.pdf](http://postalpro.usps.com/storages/2016-12/657_GuidetoSeamlessAcceptance.pdf)).

<sup>279</sup> Docket No. ACR2016, Responses of the United States Postal Service to Questions 2-4 and 7-13 of Chairman’s Information Request No. 16, February 17, 2017, question 3.

e. Intelligent Mail Barcode (IMb)

In Quarter 3 of FY 2011, the Postal Service began using IMbs to measure service performance for USPS Marketing Mail, Periodicals, Bound Printed Matter (BPM) Flats, and some First-Class Mail products. The Postal Service currently offers two barcode options for mailers: Basic and Full-Service. The Basic option allows mailers to utilize IMbs for their mailpieces without the added benefit of accounting for each unique piece.<sup>280</sup>

The Full-Service feature allows the mailer to identify unique mailpieces throughout the mailstream, and to receive start-the-clock notifications, discounts, and automated address corrections. *Id.* Only the Full-Service feature provides the data needed to measure service performance. Mailers are required to prepare mail with IMbs and submit electronic mailing information listing IMbs used. Mail is verified to ensure it meets mail preparation criteria. Mail that does not meet mail preparation requirements is excluded from service performance measurement. *Id.*

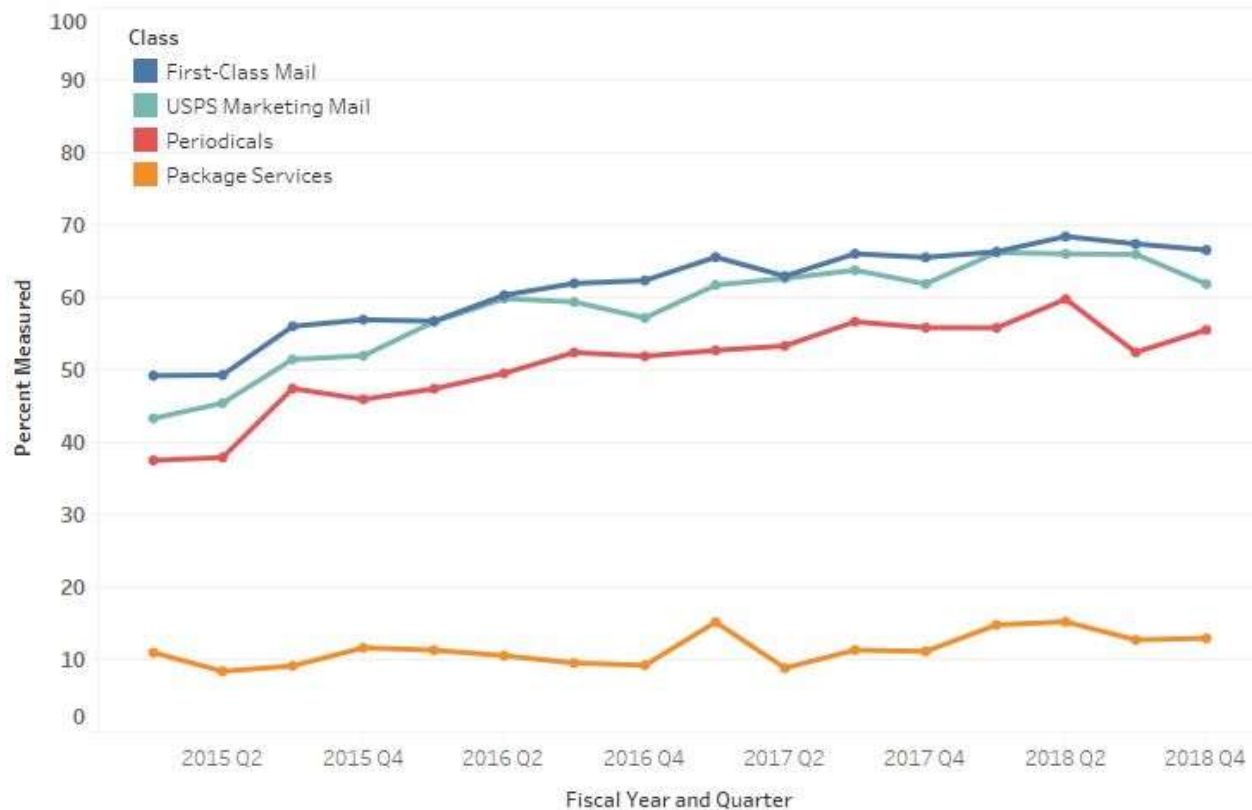
Generally, the percentage of mailpieces measured by IMb increased for most mail classes since 2015. Figure V-1 illustrates this trend, showing the percentage of First-Class Mail, USPS Marketing Mail, Periodicals, and Package Services<sup>281</sup> volume measured by IMb since FY 2015.

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<sup>280</sup> United States Postal Service, Overview to Intelligent Mail - Basic Service, August 2012 (available at: [http://ribbs.usps.gov/intelligentmail\\_guides/documents/tech\\_guides/OverviewIntelligentMailBasicService.pdf](http://ribbs.usps.gov/intelligentmail_guides/documents/tech_guides/OverviewIntelligentMailBasicService.pdf)).

<sup>281</sup> BPM Flats is the only Package Services product measured using IMb. FY 2018 Service Performance Report at 17-18. The remaining Package Services products are measured using PTR. *Id.* at 17.

**Figure V-1**  
**Nationwide Market Dominant Mail Measured by Full-Service IMb,**  
**by Percentage, by Quarter, FY 2015–FY 2018**



Source: January 11 Responses to CHIR No. 1, question 49; FY 2015 through FY 2018 United States Postal Service *Quarterly Service Performance Reports*, First-Class Mail, USPS Marketing Mail, Periodicals, and Package Service Scores Reports are available at: <http://www.prc.gov/documents/quarterly-performance>; Library Reference USPS–FY18–42, December 28, 2018; Docket No. ACR2017, Library Reference USPS–FY17–42, December 29, 2017; Docket No. ACR2016, Library Reference USPS–FY16–42, December 29, 2016; Docket No. ACR2015, Library Reference USPS–FY15–42, December 29, 2015.

*District-level measurement.* The Postal Service measures service performance at the district level. These data are aggregated to the area level and then aggregated again to report nationwide service performance results.<sup>282</sup> In order to be representative of the nation as a whole, the nationwide service performance results for each product should include data from all districts. Prior concerns expressed by the Commission with regard to the lack of reporting data from all districts<sup>283</sup> appear to have been addressed, with the vast majority of districts now reporting statistically meaningful results for all products and service standard levels.

<sup>282</sup> See United States Postal Service *Quarterly Service Performance Reports* Quarters 1-4 of FY 2018 (available at: <http://www.prc.gov/dockets/quarterly-performance>).

<sup>283</sup> See, e.g., FY 2015 ACD at 98-99.



*Pieces excluded from measurement.* The Commission continues to monitor the issue of mailpieces excluded from measurement. *See, e.g.*, FY 2015 ACD at 99-102; FY 2016 ACD at 96-99; FY 2017 ACD at 103-06. During FY 2016, the Commission issued an order enhancing the reporting of service performance measurement data.<sup>284</sup> Among other things, this order required the Postal Service to begin providing regular, detailed information concerning mailpieces included and excluded from measurement, as well as the reasons mailpieces are excluded from measurement. Order No. 3490 at 28-35.

In general, the more mail that is measured, the more representative, accurate, and reliable such measurements will be. Table V-4 contains Postal Service data regarding the percentage of mail in measurement, the percentage of mail entered as Full-Service IMb and included in measurement, and the percentage of mail entered as Full-Service IMb and excluded from measurement.<sup>285</sup> Table V-4 also shows that the percentage of mail in measurement increased each fiscal year from FY 2015 to FY 2018, for nearly all measured products.<sup>286</sup> Generally, this increase corresponds to a decrease in the percentage of Full-Service IMb mail excluded from measurement.<sup>287</sup>

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<sup>284</sup> See Docket No. PI2016-1, Order Enhancing Service Performance Reporting Requirements and Closing Docket, August 26, 2016 (Order No. 3490).

<sup>285</sup> The formula for the percentage of mail in measurement is mail that is measured / total mail. The formula for the percentage of mail processed at Full-Service IMb prices and included in measurement is Full-Service IMb mail measured / total Full-Service IMb mail. The formula for the percentage of mail entered as Full-Service IMb mail and excluded from measurement is Full-Service IMb mail excluded from measurement / total Full-Service IMb mail.

<sup>286</sup> For USPS Marketing Mail Every Door Direct Mail—Retail, the percentage of mail in measurement decreased slightly (0.04 percentage points) from FY 2017 to FY 2018.

<sup>287</sup> For First-Class Mail Flats and BPM Flats, the percentage of mail in measurement increased slightly from FY 2016 to FY 2017; however, for that same period, the percentage of Full-Service IMb mail excluded from measurement also increased. Similar results were observed for First-Class Mail Flats from FY 2017 to FY 2018. An increase in both categories was also reported for USPS Marketing Mail Carrier Route from FY 2017 to FY 2018 because data were collected for only 3 quarters in FY 2017 versus 4 quarters in FY 2018. Responses to CHIR No. 6, question 5.

**Table V-4**  
**Mail in Measurement and Excluded from Measurement,**  
**by Percentage, FY 2015–FY 2018**

|   | Percentage of mail in measurement |         |         |         | Percentage of mail entered at Full-Service IMb prices and included in measurement |         |         |         | Percentage of mail processed as Full-Service IMb, but excluded from measurement |         |         |         |
|---|-----------------------------------|---------|---------|---------|---|---------|---------|---------|---|---------|---------|---------|
|   | FY 2015                           | FY 2016 | FY 2017 | FY 2018 | FY 2015   | FY 2016 | FY 2017 | FY 2018 | FY 2015   | FY 2016 | FY 2017 | FY 2018 |
| First-Class Mail                          |                                   |         |         |         |   |         |         |         |   |         |         |         |
| Presorted Letters/Postcards               | 52.7                              | 62.5    | 64.9    | 67.2    | 60.2  | 70.2    | 72.2    | 74.0    | 39.8  | 29.8    | 27.8    | 26.0    |
| Flats                                     | 12.8                              | 54.1    | 54.5    | 56.1    | 54.2  | 72.4    | 69.6    | 69.0    | 45.8  | 27.6    | 30.4    | 31.0    |
| USPS Marketing Mail                       |                                   |         |         |         |   |         |         |         |   |         |         |         |
| High Density and Saturation Letters       | 58.8                              | 68.8    | 72.5    | 75.6    | Data Not Available  |         | 79.0    | 80.8    | Data Not Available  |         | 21.0    | 19.2    |
| High Density and Saturation Flats/Parcels | 21.9                              | 36.6    | 37.4    | 37.7    |   |         | 60.4    | 68.1    |   |         | 39.6    | 31.9    |
| Carrier Route                             | 53.8                              | 69.6    | 72.4    | 73.2    |   |         | 79.7    | 76.9    |   |         | 20.3    | 23.1    |
| Letters                                   | 56.0                              | 69.1    | 72.6    | 76.0    |   |         | 80.8    | 82.8    |   |         | 19.2    | 17.2    |
| Flats                                     | 45.0                              | 59.0    | 61.4    | 64.6    |   |         | 73.9    | 76.8    |   |         | 26.1    | 23.2    |
| Every Door Direct Mail–Retail             | 28.0                              | 63.2    | 63.9    | 63.9    | Not Applicable  |         |         |         |   |         |         |         |
| Parcels                                   | 30.4                              | 44.5    | 45.1    | 50.9    | Data Not Available  |         |         |         |   |         |         |         |
| Total USPS Marketing Mail                 | 50.3                              | 63.8    | 66.7    | 69.2    | 65.2  | 76.7    | 79.2    | 81.2    | 34.8  | 23.3    | 20.8    | 18.8    |
| Periodicals                               |                                   |         |         |         |   |         |         |         |   |         |         |         |
| In-County                                 | Data Not Available                | 7.4     | 7.9     | 9.9     | Data Not Available  |         |         |         |   |         |         |         |
| Outside County                            | 46.7                              | 57.0    | 60.9    | 62.0    |   |         |         |         |   |         |         |         |
| Total Periodicals                         | 42.7                              | 52.4    | 55.8    | 56.7    | 61.6  | 68.1    | 71.2    | 71.5    | 38.4  | 31.9    | 28.8    | 28.5    |
| Package Services                          |                                   |         |         |         |   |         |         |         |   |         |         |         |
| Bound Printed Matter Flats                | 10.1                              | 11.4    | 11.8    | 14.0    | 38.2  | 43.5    | 42.6    | 45.5    | 61.8  | 56.5    | 57.4    | 54.5    |

Note: The total number of Full-Service IMb pieces was unavailable at the product level for USPS Marketing Mail in FY 2017 Quarter 1. Therefore, the FY 2017 percentage of mail entered at Full-Service IMb prices and included in measurement and percentage of mail processed as Full-Service IMb but excluded from measurement for each USPS Marketing Mail product are based on the data from FY 2017 Quarter 2 to FY 2017 Quarter 4. Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 11, February 7, 2018, question 8 (Docket No. ACR2017 Responses to CHIR No. 11).

Source: January 11 Responses to CHIR No. 1, question 50; FY 2017 ACD at 104.

The Postal Service lists four main reasons why mailpieces are excluded from measurement.<sup>288</sup> First, “No Start-the-Clock” occurs when the Postal Service lacks a container unload scan or is unable to identify the Facility Access and Shipment Tracking (FAST) appointment associated with the container. *Id.* Without an initial scan or an identified FAST appointment, the Postal Service cannot decipher when the measuring process should begin and therefore excludes these mailpieces from measurement. *See* FY 2017 ACD at 105.

Second, “Long Haul” occurs when a mailpiece verified at a Detached Mail Unit (DMU) is transported by the Postal Service to a mail processing facility in a different district than the DMU. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service considers this an operational failure because it results in a loss of visibility of the mailpiece. *See* FY 2017 ACD at 105.

Third, “No Piece Scan” occurs when no automation scan is reported for the mailpiece. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service excludes these mailpieces from measurement due to incomplete data. *See* FY 2017 ACD at 105.

Fourth, “Invalid Entry Point for Discount Claimed” occurs when the discount Entry Point claimed by the mailer in electronic documentation (eDoc) is invalid for the entry point and destination of the mailpiece. Docket No. PI2016-1 Responses to CHIR No. 1, question 4. The Postal Service excludes this mail from measurement due to invalid data. *See* FY 2017 ACD at 105.

Table V-5 displays the top two reasons that a mailpiece from a given class was excluded from measurement in FY 2018, and the corresponding percentages, disaggregated by quarter for FY 2017 and FY 2018. The main reasons referenced in FY 2018 are consistent with those referenced in prior years.

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<sup>288</sup> *See* Docket No. PI2016-1, Responses of the United States Postal Service to Questions 1 Through 5 of Chairman’s Information Request No. 1, May 3, 2016, question 4, Excel file “Attach.USPS.Resp.CHIR1.Q4.xlsx,” tab “4. Exclusion Reason Breakdown” (Docket No. PI2016-1 Responses to CHIR No. 1).

**Table V-5**  
**Reasons for Mailpiece Exclusions, by Percentage, by Quarter, FY 2017–FY 2018**

| Class/Reason                             | FY 2017<br>Q1 | FY 2017<br>Q2 | FY 2017<br>Q3 | FY 2017<br>Q4 | FY 2018<br>Q1 | FY 2018<br>Q2 | FY 2018<br>Q3 | FY 2018<br>Q4 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>First-Class Mail</b>                  |               |               |               |               |               |               |               |               |
| No Start-the-Clock                       | 43.81         | 37.08         | 35.07         | 36.18         | 29.47         | 35.50         | 32.15         | 29.22         |
| Long Haul                                | 31.93         | 36.92         | 40.51         | 40.89         | 40.72         | 38.80         | 41.57         | 41.31         |
| <b>USPS Marketing Mail</b>               |               |               |               |               |               |               |               |               |
| No Start-the-Clock                       | 43.83         | 42.06         | 44.76         | 43.46         | 39.59         | 46.54         | 44.54         | 40.34         |
| No Piece Scan                            | 32.75         | 30.11         | 29.09         | 29.40         | 36.97         | 35.45         | 35.08         | 33.10         |
| <b>Periodicals</b>                       |               |               |               |               |               |               |               |               |
| No Piece Scan                            | 55.38         | 56.25         | 58.38         | 56.54         | 60.31         | 60.58         | 61.97         | 62.61         |
| No Start-the-Clock                       | 16.83         | 16.12         | 15.71         | 15.50         | 12.67         | 15.34         | 13.82         | 12.93         |
| <b>Package Services</b>                  |               |               |               |               |               |               |               |               |
| No Piece Scan                            | 53.93         | 61.91         | 68.32         | 71.46         | 75.61         | 79.58         | 77.93         | 78.13         |
| Invalid Entry Point for Discount Claimed | 19.54         | 16.10         | 21.33         | 14.18         | 18.30         | 9.11          | 10.24         | 15.74         |

Source: United States Postal Service, *Quarterly Service Performance Report*, Quarter 4, November 9, 2018, Excel file "AttachA\_ExclusionReasonBreakdown\_FY18\_Q4.xlsx," tab "Exclusions;" United States Postal Service, *Quarterly Service Performance Report*, Quarter 4, November 9, 2017, Excel file "ExclusionReasonBreakdownFY17Q4.xlsx," tab "Exclusions."

f. Approved Changes to Measurement Systems, Effective  
FY 2019 Quarter 1

On July 5, 2018, the Commission approved the Postal Service's proposal to use internal service performance measurement systems to generate data to fulfill the statutory and regulatory requirements for service performance measurement of several Market Dominant products, beginning in FY 2019, Quarter 1.<sup>289</sup> This approval was conditioned upon the Postal Service continuing its external auditing program, including filing each audit report with the Commission within 60 days of each applicable reporting quarter. Order No. 4697 at 67. Also, the first annual compliance report based on data from the internal service performance measurement systems must contain an explanation of any significant discrepancies between the new versus legacy systems, where appropriate. *Id.* Moreover, where appropriate, the Postal Service shall propose a method of comparing new versus legacy data. *Id.*

<sup>289</sup> Docket No. PI2015-1, Order Approving Use of Internal Measurements Systems, July 5, 2018, at 66-67 (Order No. 4697). The Commission resolved the Postal Service's motion for clarification of Order No. 4697. Docket No. PI2015-1, Errata to Order No. 4697, August 21, 2018.

Specifically, data generated from the internal systems will replace data generated by the legacy EXFC system for First-Class Mail Single-Piece Letters/Postcards and single-piece First-Class Mail Flats. *Id.* at 17-19. The internal systems measure service performance for these mailpieces in three independent segments: First Mile (measures the time from collection to the first mail processing operation); Processing Duration (measures the time between the first processing operation to the last processing operation); and Last Mile (measures the time between the last processing operation and final delivery).<sup>290</sup>

Additionally, data generated from the internal system for measuring the Last Mile segment will replace data generated by the legacy system of using external, third-party reporters to record delivery (via an IMb scan) of First-Class Mail Presorted Letters/Postcards, presort First-Class Mail Flats, Periodicals, USPS Marketing Mail letter-shaped and flat-shaped pieces, and BPM Flats.<sup>291</sup>

On November 5, 2018, the Commission conditionally approved modifications to the Postal Service Market Dominant service performance measurement systems.<sup>292</sup> This approval was conditioned upon the Postal Service making certain corrections to its documentation, or providing explanations for why those corrections were not necessary. Order No. 4872 at 2. In response to Order No. 4872, the Postal Service provided narrative explanations and the December 10, 2018 Postal Service Service Performance Measurement Plan.<sup>293</sup> On December 27, 2018, the Commission issued an order acknowledging that the Postal Service had satisfied the directives appearing in Order No. 4872 and provided instructions concerning future filings.<sup>294</sup>

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<sup>290</sup> *Id.* Mailpieces for which the first processing scan is the same event as the last processing scan may be included in measurement of Processing Duration. *Id.* at 19 n.40.

<sup>291</sup> *Id.* at 21; see December 10, 2018 Postal Service Service Performance Measurement Plan at 11-12, 98.

<sup>292</sup> Docket No. PI2018-2, Order Conditionally Approving Modifications to Market Dominant Service Performance Measurement Systems, November 5, 2018 (Order No. 4872).

<sup>293</sup> Docket No. PI2018-2 Postal Service Response to Order No. 4872. A chart identifying the revisions to the plan, a clean version of the plan, and a redline version of the plan were filed as Attachments 1 through 3, respectively.

<sup>294</sup> Docket No. PI2018-2, Order Closing Docket, December 27, 2018, at 2 (Order No. 4945).

### 3. The Postal Service's Responses to the Directives Related to First-Class Mail Single-Piece Letters/Postcards

#### a. Introduction

##### (1) Procedural Background

In FY 2015, service performance results for First-Class Mail Single-Piece Letters/Postcards declined more rapidly than in prior fiscal years—particularly for the 3-5-Day service standard category. FY 2015 ACD at 132. This decline was especially concerning because “[f]or the first time since the Postal Service began reporting service performance of all Market Dominant mail products, no First-Class Mail product met or exceeded its service performance target[.]” *Id.* at 131.

In the FY 2015 ACR and in responses to CHIRs, the Postal Service identified issues surrounding the FY 2015 results and reported that it would continue its existing remediation strategy, which involved using root cause failure analysis to identify problematic facilities and rectify operational issues. *Id.* at 136. The Commission noted several concerns, including the absence of (1) a link between the use of root cause diagnostic tools with Postal Service actions to improve service performance and (2) a quantitative link between the issues identified by the Postal Service with service performance results. *Id.*

Determining that First-Class Mail Single-Piece Letters/Postcards was not in compliance in FY 2015, the Commission issued directives to promote improvement and gain better visibility into the remediation strategy reported by the Postal Service. *Id.* at 136-38. These directives included the Postal Service providing, within 90 days of the issuance of the FY 2015 ACD, “a detailed, comprehensive plan” along with specific data. *Id.* at 138. The Commission also directed the Postal Service to “provide an explanation in the FY 2016 ACR detailing specific efforts targeted to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2016.” *Id.*

The Postal Service's responses to these directives described available data and enhanced technology.<sup>295</sup> The Postal Service reported using these tools to identify and correct local deficiencies in FY 2016 and indicated that it would continue these actions in FY 2017.<sup>296</sup> Several CHIRs were issued to obtain data and explanations to enable the Commission's evaluation of this course of action.

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<sup>295</sup> Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, June 27, 2016, Service Improvement Plan (Docket No. ACR2015 Service Response).

<sup>296</sup> Docket No. ACR2016, Library Reference USPS–FY16–29, December 29, 2016, file “FY16-29 Service Performance Report.pdf,” at 9 (FY 2016 Service Performance Report).

In FY 2016, the results for First-Class Mail Single-Piece Letters/Postcards improved. FY 2016 ACD at 130. However, the results remained below target and the Commission remained concerned that results did not return to the level reported before FY 2015. *Id.* at 133. Determining that First-Class Mail Single-Piece Letters/Postcards was not in compliance in FY 2016, the Commission directed the Postal Service to provide FY 2017 results for many of the same data sets that the Postal Service had provided for FY 2015 and FY 2016. *Id.* at 133-35.

In FY 2017, the Postal Service's provision of data and robust narrative explanations in response to these directives and follow-up CHIRs improved visibility into service performance and the Postal Service's remediation strategy.<sup>297</sup> The Commission found that these data, provided consistently year over year, may increase the accuracy of evaluating what actions contribute to improving service performance results and the relative significance of those actions and improvements. FY 2017 ACD at 108.

Additionally, the FY 2017 results for First-Class Mail Single-Piece Letters/Postcards increased relative to FY 2016. FY 2017 ACD at 147. Although the Commission recognized that 2 consecutive years of improvement was "encouraging," the Commission remained concerned that results did not return to the level reported before FY 2015. *Id.* Determining that First-Class Mail Single-Piece Letters/Postcards was not in compliance in FY 2017, the Commission directed the Postal Service to provide FY 2018 results for many of the same data sets that the Postal Service had provided for FY 2015 through FY 2017. *Id.* at 147-49. These data and additional data responsive to CHIRs were provided by the Postal Service.<sup>298</sup>

Below, the Commission provides operational background to explain how the Postal Services uses its root cause diagnostic tools to monitor and quantify the impact of a First-Class Mail Single-Piece Letter/Postcard's failure to complete certain actions occurring within the five processing phases.

## (2) The Five Processing Phases and the Root Cause Indicators

Generally, the mail flow for a First-Class Mail Single-Piece Letter/Postcard involves five processing phases. First, the Collections/First Mile phase refers to the pickup from the collection box, initial transport, and cancellation processing at the origin facility. Second,

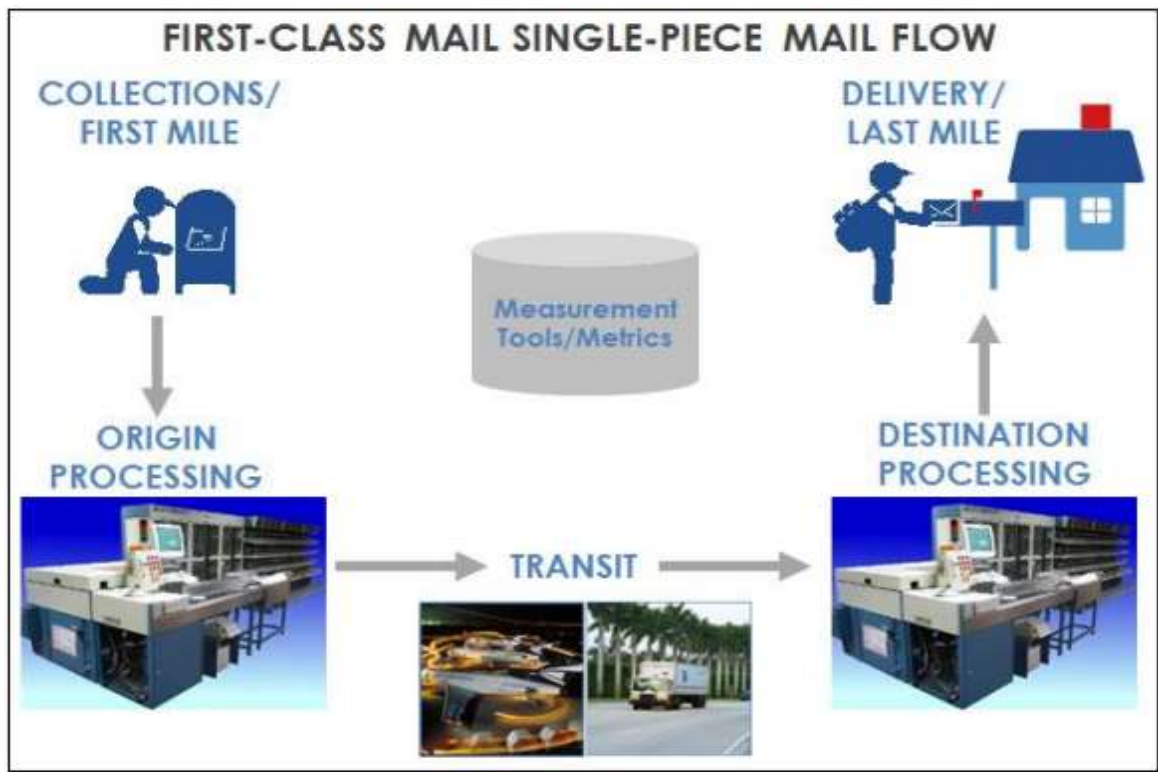
<sup>297</sup> See, e.g., Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 33, December 28, 2017, Excel file "CHIR.33.Qs.2.3.Data.xlsx" (December 28, 2017 Public File); Docket No. ACR2017, Library Reference USPS-FY17-29, December 28, 2018, Excel file "Response2 - ACD.FCM.FY17Q3Q4.pub.xlsx" (December 29, 2017 Public File); Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 2, January 17, 2018 (Docket No. ACR2017 January 17 Responses to CHIR No. 2), question 7.a., Excel file "ChIR.2.Q7.24 Hour Clock.xlsx" (24-Hour Clock Results File FY 2017); Docket No. ACR2017 Responses to CHIR No. 11, question 4, Excel file "CHIR No. 11 Response Q4.xlsx" (24-Hour Clock Results File FY 2015-FY 2016).

<sup>298</sup> See, e.g., USPS-FY18-29, Excel file "ACD.FCM.FY18Q3Q4.public - v01.xlsx" (FY 2018 Root Cause File); January 11 Responses to CHIR No. 1, questions 20-50, Excel file "CHIR.1.Multiple.Responses.xlsx" (Additional Results File); January 28 Responses to CHIR No. 3, questions 10-11; Responses to CHIR No. 6, questions 1-2; Responses to CHIR No. 11, question 9; Docket No. ACR2017, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2017 Annual Compliance Determination, June 27, 2018, Excel file "ACD.FCM.FY18Q1Q2.Public.xlsx."

the origin processing phase refers to the initial sortation(s) and subsequent assignment to ground or air transportation. Third, the transit phase refers to when a mailpiece travels by ground or air transportation to destination processing facilities. Fourth, the destination processing phase refers to the sortation(s) for delivery. Fifth, the Delivery/Last Mile phase refers to the final phase where the carrier delivers the mailpiece.

Figure V-2 depicts the Postal Service's visualization of the five processing phases.

**Figure V-2**  
**First-Class Mail Single-Piece Mail Flow**



Source: Docket No. ACR2015 Service Response at 3.

The five phases do not have uniform and concrete start and end points; instead, the general processing flow is fluid, reactive, and varies based on local conditions. Because each of the five phases flows into the next,<sup>299</sup> the cumulative effect of a relatively low number of failures at a particular phase (or interim processing action) may have the potential for significant downstream delays. Evaluating the significance of failures occurring throughout the five processing phases on the national service performance results is important to assessing the relative success of the Postal Service's improvement efforts.

<sup>299</sup> Carriers from the Delivery/Last Mile phase return with mail that will eventually be included in processing.



To monitor and quantify the impact of such failures, the Postal Service uses root cause diagnostic tools. The Postal Service assigns a root cause indicator to a First-Class Mail Single-Piece Letter or Postcard that is delivered after the applicable service standard. January 11 Responses to CHIR No. 1, question 24. The root cause indicator corresponds with the failure to clear a mailpiece through a specific processing action. *See id.*; *see also* Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a. The Postal Service quantifies the number of percentage points by which on-time service performance for First-Class Mail Single-Piece Letters/Postcards decreased due to each specific root cause of failure. January 28 Responses to CHIR No. 3, question 10.a. These point impacts were developed from the EXFC Root Cause Failure Analysis and were calculated with the following formula:

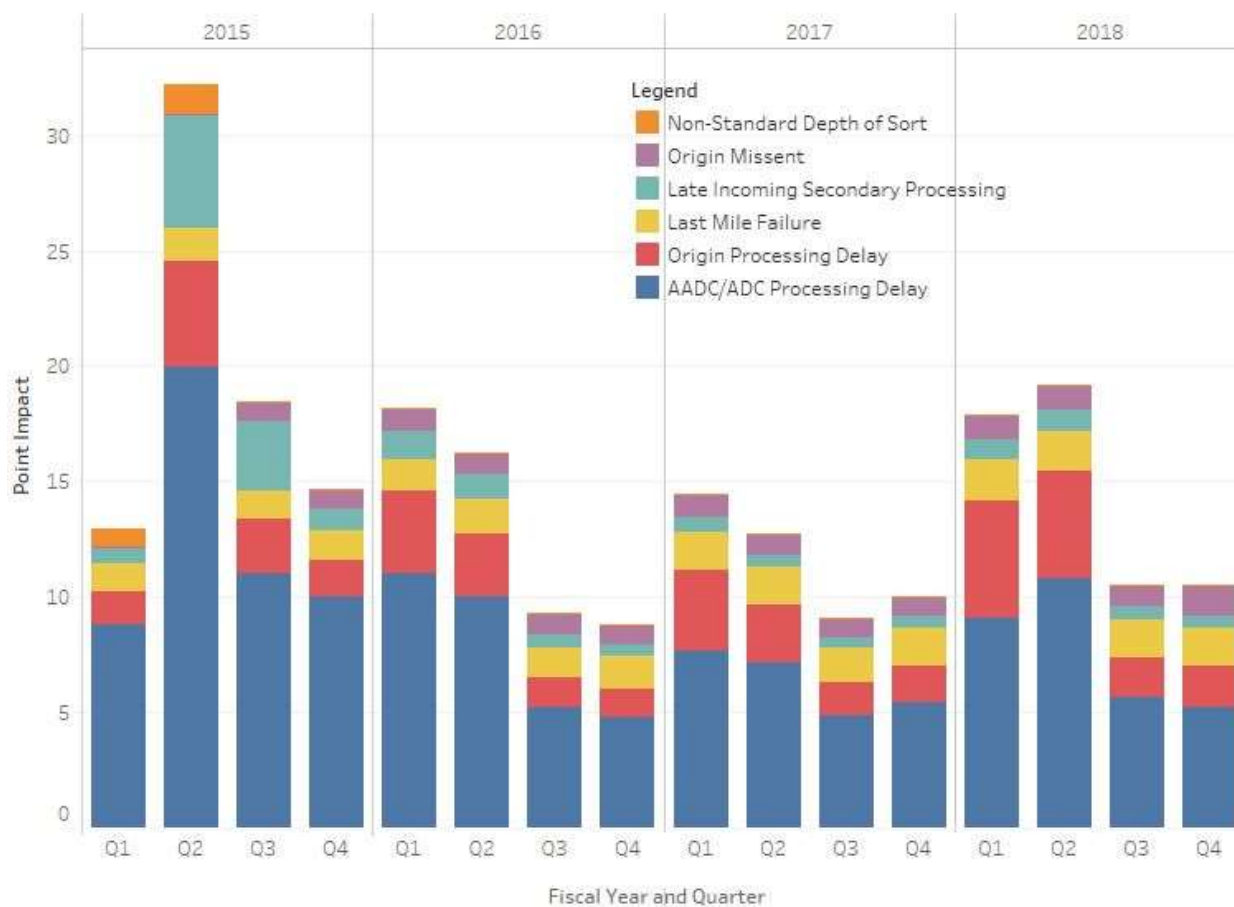
$$(1 - \text{EXFC Weighted Score}) \times \text{Root Cause Category Failure Percentage} \\ = \text{Root Cause Category Point Impact}$$

*Id.* question 10.c. Below, the Commission provides analysis of the Postal Service's root cause data specific to 3-5-Day First-Class Mail Single-Piece Letters/Postcards. The Commission focuses its discussion on the 3-5-Day service standard category because the Commission has noted particular concerns with this category's service performance results in prior fiscal years. *See, e.g.*, FY 2015 ACD at 132.

b. Commission Analysis

Figure V-3 displays the point impact of the top five root cause indicators on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Figure V-3**  
**Nationwide Impact of Top 5 Root Causes on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**



Source: Additional Results File, tab "Q25a - Top 5 Root Cause PI."

Figure V-3 illustrates that AADC/ADC processing delays accounted for the largest impact across all quarters throughout the fiscal years shown. Moreover, the FY 2018 quarterly point impacts for many of these root cause indicators reported increases from the corresponding quarter in FY 2017, most significantly for origin processing delays and AADC/ADC processing delays. Accordingly, the Commission encourages the Postal Service to focus on addressing these root causes. Based on additional details provided in the phase-specific discussion below, the Commission finds that AADC/ADC processing delays specific to air transit represent the highest leverage opportunity for the Postal Service to increase service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards.

An explanation was requested for "the reason(s) why the levels [for each of the top five root causes] reported for FY 2018 increased from the levels reported for FY 2017, the steps that the Postal Service has taken to reverse this trend, and the steps that the Postal Service

plans to take to reverse this trend.” CHIR No. 1, question 26.a. through 26.e. The Postal Service did not provide a response specific to each indicator and did not address the reason(s) for the increase. *See* January 11 Responses to CHIR No. 1, question 26. The Postal Service reiterated its commitment to service performance improvement in FY 2019 and discussed its plans to deploy service teams to local facilities and hold Area teleconferences to ensure compliance with operating plans. *Id.* The Commission is directing the Postal Service to provide transparency into the link between the use of root cause diagnostic tools with Postal Service actions to improve service performance. The Commission is also directing the Postal Service to ensure continued monitoring and transparency into quantitative connections between the issues identified by the Postal Service and service performance results. The exact requirements of these directives are discussed in section V.A.4.a., *infra*.

For each of the five processing phases, the discussion below diagrams the general processing flow<sup>300</sup> and provides analysis based on the applicable Postal Service data.

#### (1) Collections/First Mile

Collections/First Mile refers to the first phase, in which a First-Class Mail Single-Piece Letter or Postcard proceeds from collection through the cancellation process. *See* FY 2016 ACD at 106. During this phase, the Postal Service retrieves the mailpiece from a collection box or other collection point, transports it to the origin processing facility, unloads the mailpiece, and moves it to a facer-canceller machine to receive a cancellation mark.<sup>301</sup> The diagram below illustrates these three processing points.



The Postal Service monitors collection delays that occur in retrieving mail from a collection box or in the handoff to the facility. Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a. If a First-Class Mail Single-Piece Letter or Postcard is not delivered by its service standard and no subsequent cycle time checkpoints are met, then the Postal Service assigns the collection delay root cause failure indicator. *Id.*; *see* January 11 Responses to CHIR No. 1, question 24.b.

<sup>300</sup> The diagrams appearing in each phase-specific discussion are not an exhaustive description of the processing actions that occur. The arrows connecting the measurement points illustrate intra-phase transportation such as from a collection point to a postal facility, mail movement inside a postal facility, or between postal facilities. Opportunities to add visibility into these aspects of each phase also exist.

<sup>301</sup> *Id.* “A cancellation mark, or postmark, is applied to prevent the reuse of the indicia and to provide a date which is recognized as a valid time determinate. The cancellation mark consists of the city, state, and date to identify when and where a mailpiece was processed.” Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-5 and 7-21 of Chairman’s Information Request No. 1, January 10, 2017, question 3 (Docket No. ACR2016 January 10 Responses to CHIR No. 1).

Table V-6 displays the reported percentage point impacts caused by collection delays on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-6**  
**Nationwide Impact of Collection Delays on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 0.14    | 0.19    | 0.19    | 0.23    |
| <b>Q2</b> | 0.25    | 0.23    | 0.19    | 0.25    |
| <b>Q3</b> | 0.13    | 0.13    | 0.13    | 0.18    |
| <b>Q4</b> | 0.20    | 0.11    | 0.20    | 0.18    |

Source: Additional Results File, tab “Q30 Three-to-Five-Day;”  
see Responses to CHIR No. 11, question 9.a.

These data corroborate the Commission’s previous finding that collection delays have not significantly impacted national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards since FY 2015. FY 2017 ACD at 112. Nonetheless, continuing to monitor collection delay data provides necessary transparency. Further, continuing to evaluate and correct issues that occur in the first phase of processing helps to ensure that early-phase failures will remain relatively low and minimizes downstream delays.

## (2) Origin Processing

Origin processing refers to the phase that includes the first processing operations after a First-Class Mail Single-Piece Letter or Postcard receives a cancellation mark. FY 2016 ACD at 110. These processing actions include an origin primary sortation (as well as a secondary sortation, if necessary) and then assignment to transit, if necessary. *Id.* The diagram below illustrates the processing points.



The Postal Service monitors this phase using multiple root cause indicators. Two of these root causes, origin processing delays and origin missent, are among the top five most impactful root causes in the decline in national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 through FY 2018. Below the Commission discusses these two indicators in further detail.

The first indicator, origin processing delays, is designed to monitor the timely completion of the first two interim processing actions on the diagram. The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as experiencing an origin processing delay if the mailpiece receives either:

- an outgoing secondary scan after 0:00 hours on the day of induction or
- a late outgoing primary scan after 23:00 hours on the day of induction (if no secondary scan exists)

Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a.; *see* January 11 Responses to CHIR No. 1, question 24.b.

Table V-7 displays the reported percentage point impacts on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018 caused by origin processing delays.

**Table V-7**  
**Nationwide Impact of Origin Processing Delays on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 1.47    | 3.54    | 3.52    | 5.09    |
| <b>Q2</b> | 4.57    | 2.68    | 2.48    | 4.64    |
| <b>Q3</b> | 2.40    | 1.32    | 1.44    | 1.75    |
| <b>Q4</b> | 1.57    | 1.19    | 1.58    | 1.77    |

Source: Additional Results File, tab "Q25a - Top 5 Root Cause PI."

The point impacts of origin processing delays in FY 2018 Quarters 1, 2, and 4 were higher relative to corresponding periods in FY 2015 through FY 2017, particularly when comparing FY 2015 Quarter 1<sup>302</sup> to FY 2018 Quarter 1. The point impact of origin processing delays was 246 percent higher in FY 2018 Quarter 1 compared to FY 2015 Quarter 1.

Failures at the origin processing phase are important due to the potential impact on subsequent processing. Monitoring origin processing delay data is useful to correct failures that occur during early processing and therefore minimize failures further downstream. The Commission encourages the Postal Service to investigate the reason(s) for the increases reported in FY 2018 and reduce origin processing delays.

<sup>302</sup> Phase 2 of Network Rationalization was implemented on January 5, 2015, at the beginning of FY 2015 Quarter 2.

The second indicator, origin missent, is designed to monitor whether the first two interim processing actions on the diagram are completed in the correct local facility. The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as origin missent if the mailpiece:

- is processed in an outgoing processing operation at an unexpected origin facility and
- is not miscoded

Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a.; *see* January 11 Responses to CHIR No. 1, question 24.b. If these conditions are met and the mailpiece is not assigned either the collection delay or last mile failure root cause indicator, then the origin missent indicator will be assigned. Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a. This indicator includes mailpieces processed at consolidation facilities. *Id.*

Table V-8 displays the reported percentage point impacts caused by origin missent on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-8**  
**Nationwide Impact of Origin Missent on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 0.66    | 1.03    | 1.03    | 1.04    |
| <b>Q2</b> | 1.05    | 0.94    | 0.88    | 1.06    |
| <b>Q3</b> | 0.92    | 0.92    | 0.90    | 0.94    |
| <b>Q4</b> | 0.86    | 0.85    | 0.92    | 1.34    |

Source: Additional Results File, tab "Q25a - Top 5 Root Cause PI;" Responses to CHIR No. 6, question 2.

Noting the slight increases in the quarterly point impacts reported for FY 2018 relative to the corresponding quarters in FY 2017, the Commission encourages the Postal Service to investigate and address the reason(s) for the increases reported in FY 2018 for origin missent.

### (3) Transit

Transit refers to the transportation of a mailpiece that is destined for an address outside of the local service area from which the mailpiece was mailed. FY 2016 ACD at 115. During this phase, the mailpiece travels from the origin processing facility to the destination processing facility. *Id.*

The Postal Service asserts that if a mailpiece misses its scheduled transportation, then generally that mailpiece will not be delivered within the expected timeframe absent “extraordinary measures at substantial cost, such as extra transportation along with clerk and carrier overtime at the delivery point.” Responses to CHIR No. 13, question 2. This assertion is generally supported by the Postal Service’s data related to the transit phase.

To monitor problems with transit, the Postal Service measures whether mail was processed on time at the origin processing facility, but scanned late at the destinating processing facility. Docket No. ACR2015 Service Response at 15. This type of failure is referred to as an AADC/ADC processing delay. *Id.* The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as experiencing an AADC/ADC processing delay if the mailpiece:

- receives a processing scan at the expected AADC facility after 12:00 PM on the day before the expected day of delivery and
- fails to meet any subsequent processing cycle time checkpoints<sup>303</sup>

Table V-9 displays the reported percentage point impacts caused by AADC/ADC processing delays on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-9**  
**Nationwide Impact of AADC/ADC Processing Delays on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 8.79    | 11.05   | 7.62    | 9.08    |
| <b>Q2</b> | 19.99   | 10.04   | 7.18    | 10.79   |
| <b>Q3</b> | 11.00   | 5.22    | 4.88    | 5.62    |
| <b>Q4</b> | 10.04   | 4.81    | 5.41    | 5.24    |

Source: Additional Results File, tab “Q25a - Top 5 Root Cause PI.”

<sup>303</sup> Docket No. ACR2017 January 17 Responses to CHIR No. 2, questions 7.c.ii. and 8.a.; see January 11 Responses to CHIR No. 1, question 24.b. For flat-shaped pieces, this indicator is assigned to a piece that receives a processing scan at the expected ADC facility after 12:00 PM on the day before the expected day of delivery, and fails to meet any subsequent processing cycle time checkpoints. Docket No. ACR2017 January 17 Responses to CHIR No. 2, questions 7.c.ii. and 8.a.

AADC/ADC processing delays impacted service performance results more than any other root cause for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018. These data indicate that reducing AADC/ADC processing delays would be a high-leverage approach to improving service performance results. The Commission observes two trends with respect to the reported point impact of AADC/ADC processing delays.

The first trend generally evinces the effect of seasonality within each fiscal year. For FY 2015 through FY 2018, there is a substantial decline in the point impacts reported in Quarter 3 (April 1 through June 30) relative to Quarter 2 (January 1 through March 31).<sup>304</sup> For FY 2015 through FY 2018, the point impacts reported in Quarter 4 (July 1 through September 30) remains near the levels observed in the preceding Quarter 3.

The second trend compares the point impacts for the same period over 4 fiscal years. For all 4 quarters, the FY 2017 point impacts are lower than the corresponding FY 2015 point impacts, most of them significantly so. However, the point impacts observed in FY 2018 generally increased relative to the point impacts observed for the corresponding fiscal quarters in FY 2017. Notably the FY 2018 Quarter 2 point impact of AADC/ADC processing delays represents an approximate 50 percent increase compared to the corresponding point impact observed in FY 2017 Quarter 2. These data evidence some regression of the progress made in FY 2016 and FY 2017. Accordingly, the Commission encourages the Postal Service to increase its focus on leveraging the strategies it successfully used to improve AADC/ADC processing delays in FY 2016 and FY 2017.

Below, the Commission provides additional discussion specific to each mode of transit: air and ground. Approximately one-third of 3-5-Day First-Class Mail Single-Piece Letters/Postcards used air transit and the remainder used ground transit in FY 2018. January 11 Responses to CHIR No. 1, question 23. The data provided by the Postal Service indicate that 3-5-Day First-Class Mail Single-Piece Letters/Postcards are disproportionately impacted by air transit delays.

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<sup>304</sup> The FY 2015, FY 2016, and FY 2018 Quarter 3 point impacts of AADC/ADC delays represent approximately a 48 percent decrease compared to the point impacts in the preceding Quarter 2.



## (a) Air Transit

With respect to air transit, the Postal Service follows five general steps. The Postal Service's first air transit processing action—securing capacity and assigning the mailpiece to the appropriate air carrier and intermediate ground carrier(s)—follows the last step of the origin processing phase. Second, the mailpiece is transferred to an intermediate ground carrier contracted to deliver the mailpiece to the air carrier. Third, after traveling some distance by ground, the intermediate operator transfers the mailpiece to the contracted air carrier. Fourth, the mailpiece is transported to the destination processing facility.<sup>305</sup> Finally, the mailpiece is unloaded at the destination processing facility. FY 2016 ACD at 115-16. The diagram below illustrates the processing points.



As the diagram illustrates, the focus of the second through fifth processing actions involves multiple transfers. The Postal Service acknowledges that these transfers “play[] a critical part in the timeliness of postal delivery.” Docket No. ACR2015 Service Response at 15. To track these transfers, the Postal Service monitors daily AADC/ADC processing delays specific to mailpieces transported by air transit.

Table V-10 displays the reported percentage point impacts caused by air transit AADC/ADC processing delays on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-10**  
**Nationwide Impact of AADC/ADC Processing Delays (Air) on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 14.33   | 14.67   | 9.77    | 11.76   |
| <b>Q2</b> | 26.13   | 13.73   | 9.65    | 14.14   |
| <b>Q3</b> | 14.87   | 7.63    | 7.11    | 7.42    |
| <b>Q4</b> | 14.53   | 7.07    | 7.74    | 7.59    |

<sup>305</sup> The Postal Service takes possession of the mailpiece after the air transport provider lands at an airport. The mailpiece is then transported by ground to the closest destination processing facility.

Source: Additional Results File, tab "Q25b - AADC Delay Air PI."

These data evidence the substantial point impacts attributed to air transit AADC/ADC processing delays for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 through FY 2018. The Commission observes two trends evident in these data, which parallel the trends observed for the aggregate indicator discussed above.

First, the seasonality evidenced by the aggregate indicator discussed above is also apparent in the indicator specific to air transit. For FY 2015 through FY 2018, there are substantial declines in point impacts reported in Quarter 3 (April 1 through June 30) and Quarter 4 (July 1 through September 30) relative to Quarter 2 (January 1 through March 31).

Second, these data also evidence similar yearly trends. Generally, the point impacts observed in FY 2016 and FY 2017 represent year-over-year decreases from the point impacts observed for the corresponding fiscal quarters in FY 2015. For all 4 quarters, the FY 2017 point impacts are lower than the corresponding FY 2015 point impacts, most of them significantly so. In FY 2016 and FY 2017, the Postal Service began utilizing two nationwide initiatives to monitor air transit delays caused by the untimely transfer of mailpieces and untimely air transportation. First, the Postal Service uses barcode scanning technology to track the pickup and delivery of mailpieces at air carrier locations that are serviced by Postal Service Vehicle Service operators.<sup>306</sup> Second, the Postal Service incorporates on-time performance requirements into air carrier contracts.<sup>307</sup> The Postal Service's Network Operations team monitors the air carrier's achievement of contract-specific on-time performance requirements, facilitates discussion with the air carrier if the requirements are not met, and performs internal analysis to use the best performing air carriers for air transportation services. Docket No. ACR2016 January 18 Responses to CHIR No. 4, question 6.

After 2 consecutive years of progress in addressing air transit issues, however, the point impacts of AADC/ADC processing delays specific to air transit observed in FY 2018 generally increased from the point impacts observed for the corresponding quarters in FY 2017. Notably, the FY 2018 Quarter 2 point impact of AADC/ADC processing delays specific to air transit represents a 46 percent increase compared to the corresponding point impact observed in FY 2017 Quarter 2. These data evidence some regression of the progress made in FY 2016 and FY 2017. Accordingly, the Commission encourages the Postal Service to continue to address air transit AADC/ADC processing delays.

Additionally, the Postal Service monitors two other indicators related to air transit: its procurement of air carrier capacity and timely assignment of mailpieces. Unlike AADC/ADC processing delays and the other root cause indicators, these two indicators measure multiple products transported by air and do not collect data specific to a particular product.

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<sup>306</sup> Docket No. ACR2015 Service Response at 10; Docket No. ACR2016 January 10 Responses to CHIR No. 1, question 12.

<sup>307</sup> Docket No. ACR2015 January 19 Responses to CHIR No. 22, question 7.b.i.; see Docket No. ACR2016 January 18 Responses to CHIR No. 4, question 6.

Both of these indicators focus on the first interim processing action referenced in the above diagram specific to air transit. These two indicators evidence that the Postal Service has generally continued to make progress in properly assigning mailpieces to the air network and securing appropriate air carrier capacity since FY 2015.

First, the Postal Service has measured the air capacity gap since the implementation of Phase 2 of Network Rationalization in FY 2015 Quarter 2. The Postal Service stated that Phase 2 of Network Rationalization resulted in insufficient air carrier capacity and asserted that this was one of the primary reasons for the dramatic decline in First-Class Mail service performance results in FY 2015. FY 2015 ACD at 133. The Postal Service states that it is unable to quantify the impact of the air capacity gap on service performance results for First-Class Mail Single-Piece Letters/Postcards. January 11 Responses to CHIR No. 1, question 32.

Table V-11 displays the air capacity gap, which refers to the difference between the airplane space secured and the space requested by the Postal Service, reported for each fiscal quarter since Phase 2 of Network Rationalization was implemented.

**Table V-11**  
**Air Capacity Gap, by Volume, by Quarter, FY 2015–FY 2018**

|                   | Air Carrier Capacity Requested | Air Carrier Capacity Received | Air Capacity Gap |
|-------------------|--------------------------------|-------------------------------|------------------|
| <b>FY 2015 Q2</b> | 172,802,712                    | 152,268,168                   | 20,534,544       |
| <b>FY 2015 Q3</b> | 166,389,873                    | 153,097,529                   | 13,292,344       |
| <b>FY 2015 Q4</b> | 164,085,103                    | 155,999,285                   | 8,085,818        |
| <b>FY 2016 Q1</b> | 212,745,658                    | 193,238,920                   | 19,506,738       |
| <b>FY 2016 Q2</b> | 252,678,595                    | 230,048,715                   | 22,629,880       |
| <b>FY 2016 Q3</b> | 212,352,972                    | 198,815,088                   | 13,537,884       |
| <b>FY 2016 Q4</b> | 198,440,550                    | 195,992,958                   | 2,447,592        |
| <b>FY 2017 Q1</b> | 203,329,800                    | 195,798,675                   | 7,531,125        |
| <b>FY 2017 Q2</b> | 199,514,640                    | 194,290,278                   | 5,224,362        |
| <b>FY 2017 Q3</b> | 186,500,834                    | 178,092,434                   | 8,408,400        |
| <b>FY 2017 Q4</b> | 177,735,982                    | 174,191,004                   | 3,544,977        |
| <b>FY 2018 Q1</b> | 200,112,683                    | 193,812,828                   | 6,299,855        |
| <b>FY 2018 Q2</b> | 201,656,006                    | 194,688,943                   | 6,967,063        |
| <b>FY 2018 Q3</b> | 194,891,879                    | 189,872,384                   | 5,019,495        |
| <b>FY 2018 Q4</b> | 194,263,480                    | 189,184,085                   | 5,079,395        |

Note: Data are calculated using average daily cubic feet volume. "Data is not provided for [FY 2015] Quarter 1 because Phase 2 of Network Rationalization was implemented on January 5, 2015, at the beginning of FY 2015 Quarter 2." FY 2015 ACD at 133 n.231.

Source: FY 2018 Root Cause File, tab "Q4a;" December 29, 2017 Public File, tab "Q4a;" Docket No. ACR2016, Response of the United States Postal Service to Question 1 of the Chairman's Information Request No. 28, March 17, 2017, question 1 (Docket No. ACR2016 Responses to CHIR No. 28); Docket No. ACR2015, Responses of the United States Postal Service to Questions 15-26 of Chairman's Information Request No. 2, January 19, 2016, question 19.b. (Docket No. ACR2015 January 19 Responses to CHIR No. 2).

These data indicate that in FY 2018 the Postal Service has continued to make progress in reducing the air capacity gap from the levels observed in FY 2015. Noting the increases in

the air capacity gap reported for FY 2018 Quarters 2 and 4 over the corresponding quarters in FY 2017, the Commission encourages the Postal Service to continue its efforts to secure adequate air capacity.

Second, the Postal Service measures the mailpieces reported as assigned to the air network. January 11 Responses to CHIR No. 1, question 47.c. The mailpieces measured include First-Class Mail Single-Piece Letters/Postcards, Presorted Letters/Postcards, and Flats, as well as some competitive products (Priority Mail and First-Class Package Service). *Id.* The national clearance time target for completion was 02:30 hours during FY 2015 through FY 2018.<sup>308</sup> The Postal Service explains that this indicator primarily applies to mailpieces with a 3-5-Day service standard.<sup>309</sup>

Table V-12 displays the percentage of mailpieces reported as assigned to the air network by 02:30 hours for each quarter of FY 2015 through FY 2018.

**Table V-12**  
**Nationwide Mailpieces Assigned to FedEx/Commercial Carrier by 02:30 hours,**  
**by Percentage, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 89.6    | 86.6    | 88.6    | 87.7    |
| <b>Q2</b> | 85.3    | 88.7    | 90.6    | 89.2    |
| <b>Q3</b> | 88.6    | 92.2    | 92.6    | 92.2    |
| <b>Q4</b> | 89.8    | 92.8    | 92.5    | 92.4    |

Source: FY 2018 Root Cause File, tab “Q1a;” 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016.

These data indicate that in FY 2018 the Postal Service has generally continued to make progress in improving the percentage of mailpieces properly assigned to air transit compared to the levels observed in FY 2015. Noting the slight decreases in timely assignment reported for FY 2018 relative to the corresponding periods in FY 2017, the Commission encourages the Postal Service to continue its efforts to assign mailpieces in a timely manner.

With regard to reducing the overall impact of air transit delays on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, the Commission encourages the Postal Service to focus on leveraging the strategies it successfully used to decrease AADC/ADC processing delays specific to air transit in FY 2016 and FY 2017.

<sup>308</sup> *Id.*; 24-Hour Clock Results File FY 2015-FY 2016; Docket No. ACR2017 Responses to CHIR No. 11, question 1.d.

<sup>309</sup> Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-3, 4.a, 4.c, and 5-8 of Chairman’s Information Request No. 10, February 7, 2017, question 2.a. (Docket No. ACR2016 February 7 Responses to CHIR No. 10).

## (b) Ground Transit

With respect to ground transit, the Postal Service generally follows three steps. The first processing action requires the transfer of the mailpiece to the contracted ground transportation provider. Second, the ground transportation provider transports the mailpiece to the destination processing facility. En route to the destination processing facility, the mailpiece may be transferred to and transported by additional ground transportation providers. Throughout ground transit, the Postal Service attempts to minimize delays and use more direct routes. Finally, the mailpiece is unloaded at the destination processing facility. The diagram below illustrates the processing points.



Table V-13 displays the reported percentage point impacts caused by ground transit AADC/ADC processing delays on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-13**  
**Nationwide Impact of AADC/ADC Processing Delays (Ground) on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 6.36    | 8.88    | 6.29    | 7.44    |
| <b>Q2</b> | 17.37   | 7.83    | 5.67    | 8.77    |
| <b>Q3</b> | 8.75    | 3.74    | 3.50    | 4.48    |
| <b>Q4</b> | 7.36    | 3.41    | 3.96    | 3.76    |

Source: Additional Results File, tab "Q25c - AADC Delay Surface PI;"  
Responses to CHIR No. 6, question 1.

Although approximately two-thirds of 3-5-Day First-Class Mail Single-Piece Letters/Postcards are transported by ground,<sup>310</sup> ground transit AADC/ADC processing delays represent only about half of the overall point impact reported for the corresponding indicator specific to air transit. These data evidence that air transit AADC/ADC processing delays had a disproportionate impact on national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 through FY 2018.

<sup>310</sup> January 11 Responses to CHIR No. 1, question 23.

Additionally, the Postal Service continues to monitor two other indicators related to ground transit: the timely departure of outbound trips and arrivals that are more than 4 hours late. Unlike AADC/ADC processing delays and the other root cause indicators, these two indicators measure multiple products transported by ground and do not collect data specific to a particular product. Essentially, these two indicators bookend the three processing points referenced in the above diagram specific to ground transit. In conjunction with each other, these two indicators increase visibility into the Postal Service's progress in addressing issues specific to its ground network operations.

First, the Postal Service measures the on-time percentage of outbound trips departing from a mail processing facility via the ground network. *Id.* question 47.e. The national clearance time targets for completion of this processing action were:

- FY 2015 Quarter 1 through FY 2016 Quarter 2—04:00 hours through 09:00 hours (5-hour range)
- FY 2016 Quarter 3 through FY 2018 Quarter 4—00:00 hours through 07:00 hours (7-hour range)<sup>311</sup>

Consistent with the Commission's finding that delays related to air transit tend to have a disproportionate impact on national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards, the Postal Service indicated that this indicator primarily applies to the mailpieces with the Overnight or 2-Day service standard. Docket No. ACR2016 February 7 Responses to CHIR No. 10, question 2.a.

Table V-14 shows the percentage of on-time outbound trips departing a mail processing facility between the designated national clearance time targets for FY 2015 through FY 2018.

**Table V-14**  
**Nationwide On-Time Outbound Trips from a Mail Processing Facility between the Designated National Clearance Times, by Percentage, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 75.1    | 75.7    | 64.6    | 76.0    |
| <b>Q2</b> | 77.2    | 80.0    | 72.5    | 78.3    |
| <b>Q3</b> | 84.2    | 79.5    | 86.9    | 83.4    |
| <b>Q4</b> | 83.0    | 85.3    | 85.6    | 83.0    |

Note: For FY 2015 Quarter 1 through FY 2016 Quarter 2, the national clearance time targets were 04:00 hours through 09:00 hours; for FY 2016 Quarter 3 through FY 2018 Quarter 4, the national clearance time targets were 00:00 hours through 07:00 hours. January 11 Responses to CHIR No. 1, question 47.e.; 24-Hour Clock Results File FY 2015-FY 2016; see Docket No. ACR2017 Responses to CHIR No. 11, question 1.e.

Source: FY 2018 Root Cause File, tab "Q1a;" 24-Hour Clock Results File FY 2017; 24-Hour Clock Results File FY 2015-FY 2016.

<sup>311</sup> *Id.*; 24-Hour Clock Results File FY 2015-FY 2016; Docket No. ACR2017 Responses to CHIR No. 11, question 1.e.

These data show that the Postal Service has made little progress in improving on-time outbound trip rates since FY 2015, when national clearance time targets were 04:00 hours through 09:00 hours. The Commission encourages the Postal Service to improve the on-time percentage of outbound trips going forward.

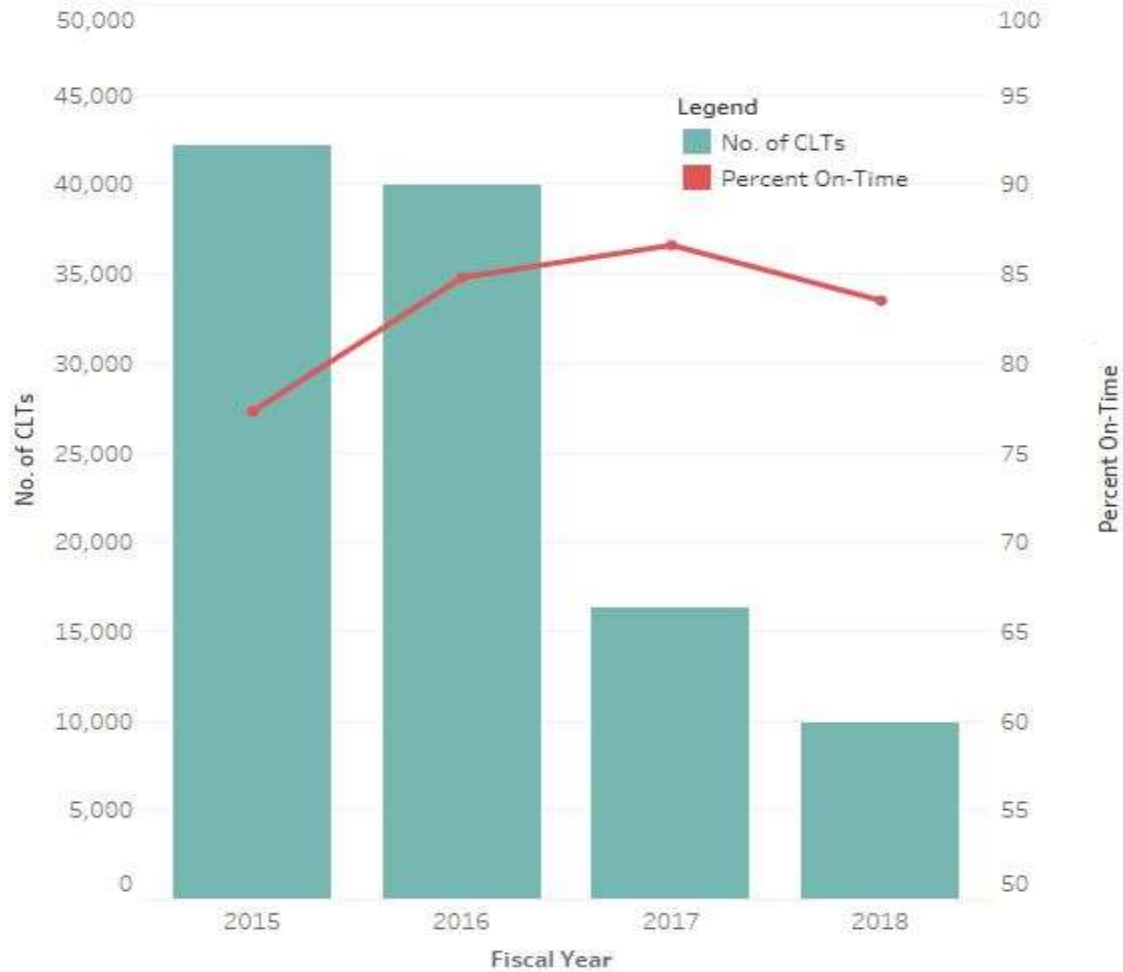
Second, the Postal Service measures Critically Late Trips (CLTs), which refer to ground trips that arrive more than 4 hours late. The Postal Service identifies a CLT by comparing the actual arrival scan to the scheduled arrival scan at the destination facility. Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 7.b.iii. The Postal Service states that it uses its Surface Visibility (SV)<sup>312</sup> diagnostic tool to identify the route, trip, and the destinating area and district. Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 7.b.iii. The Postal Service states that it is unable to quantify the impact of CLTs on service performance results for First-Class Mail Single-Piece Letters/Postcards. January 11 Responses to CHIR No. 1, question 31.

Figure V-4 compares the nationwide volume of CLTs to the percent on-time service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2015 to FY 2018.

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<sup>312</sup> During FY 2016, the Postal Service expanded SV to include more processing facilities. Docket No. ACR2015 Service Response at 13. During FY 2017, sites using SV were able to access an improved interface known as SVWeb, which increased the data and analytical capabilities of the diagnostic systems and dashboards. *See id.*; *see also* Docket No. ACR2016 January 10 Responses to CHIR No. 1, question 14.

**Figure V-4**  
**CLTs and 3-5-Day First-Class Mail Single-Piece Letters/Postcards Service Performance Results, Nationwide, FY 2015–FY 2018**



Source: FY 2018 Root Cause File, tab "Q4c;" December 29, 2017 Public File, tab "Q4e;" Docket No. ACR2016 January 10 Responses to CHIR No. 1, question 13; FY 2018 Service Performance Report at 3; Docket No. ACR2017 Library Reference USPS–FY17–29, file "FY17-29 Service Perf Report.pdf," at 4 (FY 2017 Service Performance Report); FY 2016 Service Performance Report at 4; Docket No. ACR2015, Library Reference USPS–FY15–29, December 29, 2015, file "Service Performance ACR FY15.pdf," at 4 (FY 2015 Service Performance Report).

Overall, the volume of CLTs has decreased from FY 2015 through FY 2018. In FY 2016 and FY 2017, decreasing CLTs coincided with increased service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards. In FY 2018, the number of CLTs has continued to decrease; however, service performance results also decreased.



Table V-15 compares the percent decrease in CLTs to the percentage point decreases in service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards from FY 2017 to FY 2018 for each Postal Service Area and nationwide.

**Table V-15**  
**CLTs and 3-5-Day First-Class Mail Single-Piece Letters/Postcards Service Performance Results, by Area and Nationwide, FY 2017 to FY 2018**

|               | <b>FY 2017</b> | <b>FY 2018</b> | <b>CLT<br/>% Decrease</b> | <b>FY 2017<br/>Results</b> | <b>FY 2018<br/>Results</b> | <b>On-time Service<br/>Performance<br/>Result<br/>Percentage Point<br/>Decrease</b> |
|---------------|----------------|----------------|---------------------------|----------------------------|----------------------------|---|
| Capital Metro | 1896           | 1435           | 24.3                      | 87.1                       | 83.1                       | 4.0   |
| Eastern       | 3133           | 1716           | 45.2                      | 88.9                       | 85.6                       | 3.3   |
| Great Lakes   | 2991           | 2089           | 30.2                      | 86.1                       | 83                         | 3.1   |
| Northeast     | 2228           | 1971           | 11.5                      | 83.7                       | 81.1                       | 2.6   |
| Pacific       | 1324           | 556            | 58.0                      | 86.9                       | 84.9                       | 2.0   |
| Southern      | 2718           | 1316           | 51.6                      | 86.8                       | 82.6                       | 4.2   |
| Western       | 2029           | 789            | 61.1                      | 86                         | 83.7                       | 2.3   |
| National      | 16319          | 9872           | 39.5                      | 86.6                       | 83.5                       | 3.1   |

Note: SV identifies the CLT based on the destination district and Area. Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 7.b.iii.

Source: FY 2018 Root Cause File, tab "Q4c;" December 29, 2017 Public File, tab "Q4e;" Docket No. ACR2016 January 10 Responses to CHIR No. 1, question 13; United States Postal Service, *Quarterly Service Performance Report*, Quarter 4, November 9, 2018, Excel file "Package-BPMF 184 Scores Report.xlsx," tab "SPLC 3-5-Day YTD Aggregation;" United States Postal Service, *Quarterly Service Performance Report*, Quarter 4, November 9, 2017, Excel file "Package-BPMF 174 Scores Report.xlsx," tab "SPLC 3-5-Day YTD Aggregation."

These data indicate that decreases in CLTs from FY 2017 to FY 2018 did not yield increases in service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards over the same period at the national or Area levels, which corroborates the Commission's finding that delays related to air transit had a disproportionate impact on national service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards in FY 2018.

The Commission recognizes that the Postal Service has continued to make progress in FY 2018 in reducing CLTs for all Areas and at the national level. The Postal Service asserts that reducing CLTs is achieved primarily through "education and focus" to ensure that local facilities comply with existing nationwide strategies and best practices. *See* Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 7.b.i.

The CLT data, in conjunction with the on-time outbound trips data, improve visibility into why the point impacts on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards attributed to ground transit AADC/ADC processing delays were considerably lower than the corresponding point impacts specific to air transit AADC/ADC processing delays. The Commission encourages the Postal Service to continue to reduce delays occurring in its ground transportation network.

#### (4) Destination Processing

Destination processing refers to the processing phase that occurs after First-Class Mail Single-Piece Letters/Postcards arrive at a destination processing facility. *See* FY 2016 ACD at 124. The basic operational flow for the destination processing phase involves two sortations: a primary sortation and a secondary sortation. First, the mailpiece receives an incoming primary sortation, also known as an MMP sortation. Second, the mailpiece receives an incoming secondary sortation to Delivery Point Sequence (DPS) or Carrier Route sequence. The incoming secondary sort is also referred to as the Last Processing Operation (LPO) because it is the final automated mail processing operation. The diagram below illustrates the processing points.



Specific to this phase, the Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as experiencing late incoming secondary processing if the mailpiece:

- receives the correct final processing scan at the destination facility after 08:00 hours on the expected day of delivery and
- fails to meet any subsequent processing cycle time checkpoints

Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a.; *see* January 11 Responses to CHIR No. 1, question 24.b.

Table V-16 displays the reported percentage point impacts caused by late incoming secondary processing on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-16**  
**Nationwide Impact of Late Incoming Secondary Processing on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 0.68    | 1.18    | 0.66    | 0.88    |
| <b>Q2</b> | 4.95    | 1.05    | 0.57    | 0.94    |
| <b>Q3</b> | 2.96    | 0.57    | 0.44    | 0.57    |
| <b>Q4</b> | 0.98    | 0.51    | 0.48    | 0.51    |

Source: Additional Results File, tab "Q25a - Top 5 Root Cause PI."

A large increase in the point impact of late incoming secondary processing coincided with the implementation of Phase 2 of Network Rationalization in FY 2015 Quarter 2. Subsequently, the impact of late incoming secondary processing on national service performance results has generally decreased. These data, along with other root cause indicators, indicate that late incoming secondary processing has a relatively lower impact on national service performance results in the current environment than origin processing delays and AADC/ADC processing delays. Noting the increases in the quarterly point impacts reported for FY 2018 relative to the corresponding quarters in FY 2017, the Commission encourages the Postal Service to investigate and address the reason(s) for the increases reported in FY 2018 for late incoming secondary.

The Commission continues to find utility in the Postal Service's measurement of the First-Class Mail Single-Piece Letters/Postcards that have already missed the applicable service standard by LPO. The "Miss by LPO" failure category aggregates mailpieces classified by the Postal Service as experiencing root cause failures that may occur during the Collections/First Mile, origin processing, transit, or destination processing phases. Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a.

Table V-17 displays the reported percentage point impacts caused by Miss by LPO on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-17**  
**Nationwide Impact of Miss by LPO on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 12.50   | 18.72   | 13.98   | 17.38   |
| <b>Q2</b> | 32.31   | 16.24   | 12.04   | 18.60   |
| <b>Q3</b> | 18.58   | 8.89    | 8.45    | 9.77    |
| <b>Q4</b> | 14.90   | 8.13    | 9.32    | 9.94    |

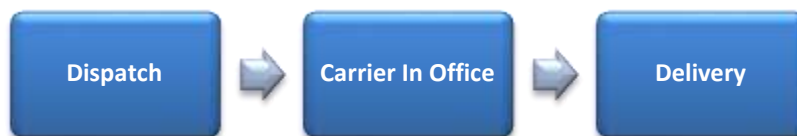
Source: Additional Results File, tab "Q29 Three-to-Five-Day;"  
see Responses to CHIR No. 11, question 10.a.

The Commission observes two divergent trends evident in these data, which parallel the trends observed for AADC/ADC processing delays. The first trend, which appears to reflect seasonality, is the significant decline in point impacts reported in Quarter 3 (April 1 through June 30) and Quarter 4 (July 1 through September 30) relative to Quarter 2 (January 1 through March 31) for FY 2015 through FY 2018.

The second trend compares the point impacts for the same period over these 4 fiscal years. Generally, the point impacts observed in FY 2016 and FY 2017 represent year-over-year decreases from the point impacts observed for the corresponding fiscal quarters in FY 2015. However, the point impacts observed in FY 2018 increased from the point impacts observed for the corresponding quarters in FY 2017. These data evidence some regression of the progress made in FY 2016 and FY 2017. Nevertheless, with the exception of Quarter 1, the point impacts observed in FY 2018 remain lower than the point impacts observed for the corresponding quarters in FY 2015.

#### (5) Delivery/Last Mile

Delivery/Last Mile refers to the final phase during which the mail carrier delivers a mailpiece to the addressee. *See* Docket No. ACR2015 Service Response at 2. The basic operational flow for the Delivery/Last Mile phase involves three major steps: mail dispatch, carrier in office operations, and delivery.<sup>313</sup> The diagram below illustrates the three processing points.



<sup>313</sup> First-Class Mail Single-Piece Letters/Postcards that were not sorted to DPS depth during the destination processing phase will be manually sorted by mail carriers ("cased") before mail dispatch and carrier in office operations occur. *See* Docket No. ACR2015 Service Response at 19-20.

The Postal Service classifies a First-Class Mail Single-Piece Letter or Postcard that is not delivered by its service standard as experiencing last mile failure indicator if the mailpiece:

- has a correct, final scan from the destination facility before 08:00 hours on the expected day of delivery and
- has no additional scan anomalies (does not receive a first DPS pass only, does not experience DPS looping, and has the appropriate depth of sort given its destination)

Docket No. ACR2017 January 17 Responses to CHIR No. 2, question 8.a. The Postal Service states that last mile failures may be a result of a delay in mail dispatch from the destination facility or a delay in the Delivery/Last Mile phase. Docket No. ACR2015 Service Response at 18.

Table V-18 displays the reported percentage point impacts caused by last mile failures on service performance results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards for each quarter of FY 2015 through FY 2018.

**Table V-18**  
**Nationwide Impact of Last Mile Failures on Service Performance Results**  
**for 3-5-Day First-Class Mail Single-Piece Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2015–FY 2018**

|           | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------|---------|---------|---------|---------|
| <b>Q1</b> | 1.22    | 1.39    | 1.64    | 1.80    |
| <b>Q2</b> | 1.38    | 1.55    | 1.61    | 1.72    |
| <b>Q3</b> | 1.21    | 1.28    | 1.45    | 1.63    |
| <b>Q4</b> | 1.24    | 1.46    | 1.66    | 1.68    |

Source: Additional Results File, tab "Q25a - Top 5 Root Cause PI."

Noting the slight increases in point impacts reported for FY 2018 relative to the corresponding quarters in FY 2017, the Commission encourages the Postal Service to investigate the reason(s) for these increases and take appropriate action to reduce last mile failures.

c. Conclusion

The Postal Service has quantified the number of percentage points by which on-time service performance for 3-5-Day First-Class Mail Single-Piece Letters/Postcards decreased due to each specific root cause of failure for FY 2015 through FY 2018. The data for AADC/ADC processing delays (primarily specific to air transit) show that the best opportunity to impact national service performances results for 3-5-Day First-Class Mail Single-Piece Letters/Postcards is to decrease air transit processing delays. Accordingly, the Commission encourages the Postal Service to focus its efforts to address air transit issues.

The Commission also recognizes that many of the point impacts observed in FY 2016 and FY 2017 improved relative to the corresponding point impacts observed in FY 2015. However, the point impacts observed for multiple key indicators in FY 2018 worsened relative to the corresponding point impacts observed in FY 2017. Significant increases from FY 2017 to FY 2018 were observed in the point impacts for origin processing delays, AADC/ADC processing delays (primarily specific to air transit), and Miss by LPO. Accordingly, the Commission encourages the Postal Service to leverage the successful strategies used in FY 2016 and FY 2017 to address these increases.

The Commission appreciates that the Postal Service has reiterated its commitment to service performance improvement in FY 2019. *See* January 11 Responses to CHIR No. 1, question 26. The Postal Service provides a general explanation that in FY 2019 it will focus on ensuring that local facilities adhere to the Postal Service's existing multi-year national data-driven strategies. *See id.* However, the Postal Service has not specifically explained the reasons for the increases in the levels observed for each of the top root causes from FY 2017 to FY 2018. *See id.* Nor has the Postal Service specifically described what actions it intends to take to reverse these trends in FY 2019. *See id.* Given the Postal Service's progress in isolating the most impactful specific reasons for failure to deliver a mailpiece

on time, the Commission expects the Postal Service to make progress on a specific service performance improvement plan that corresponds with its root cause analytics. To promote improvement, the Commission is directing the Postal Service to provide transparency into the link between the use of root cause diagnostic tools with Postal Service actions to improve service performance. The Commission is also directing the Postal Service to ensure continued monitoring and transparency into quantitative connections between the issues identified by the Postal Service and service performance results. The exact requirements of these directives are discussed in section V.A.4.a., *infra*.

## 4. FY 2018 Service Performance Results by Class

### a. First-Class Mail

#### (1) FY 2017 Directives

Determining that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2017, the Commission directed the Postal Service to improve results for all First-Class Mail products in FY 2018. FY 2017 ACD at 146. The Commission also directed the Postal Service to provide a detailed product-specific plan for any First-Class Mail product for which service performance results did not remain the same or improve in FY 2018. *Id.* Finding First-Class Mail Single-Piece Letters/Postcards to be out of compliance for the third year in a row, the Commission directed the Postal Service to provide trackable data related to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. *Id.* at 147. That directive, the Postal Service's response, and the Commission's analysis are discussed in section V.A.3., *supra*.

The Commission also found that "service performance results for First-Class Mail Flats continue[d] to fall substantially short of annual performance targets." *Id.* at 149. To address this product's service performance results as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues.<sup>314</sup> That proceeding remains pending.<sup>315</sup>

#### (2) FY 2018 Results

For the fourth consecutive year, no First-Class Mail product achieved or exceeded its service performance target. *See* Table V-2, *supra*. In addition, service performance results for all First-Class categories declined compared to FY 2017 results. Table V-19 shows service performance results compared to the annual on-time percentage targets for all First-Class Mail products from FY 2013 to FY 2018.

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<sup>314</sup> Docket No. RM2018-1, Advance Notice of Proposed Rulemaking to Develop Data Enhancements and Reporting Requirements for Flats Issues, October 4, 2017 (Order No. 4142).

<sup>315</sup> Docket No. RM2018-1, Notice of Proposed Rulemaking for Reporting Requirements Related to Flats, March 1, 2019 (Order No. 5004).

**Table V-19**  
**First-Class Mail**  
**Service Performance Results, by Percentage, FY 2013–FY 2018**

|  | FY 2013 |         | FY 2014 |         | FY 2015 |         | FY 2016 |         | FY 2017 |         | FY 2018 |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|  | Target  | On-Time | Target  | On-Time | Target  | On-Time | Target  | On-Time | Target  | On-Time | Target  | On-Time |
| <b>Single-Piece Letters/Postcards</b>      |         |         |         |         |         |         |         |         |         |         |         |         |
| Overnight                                  | 96.70   | 96.8    | 96.80   | 96.7    | 96.80   | 95.8    | N/A     | N/A     | N/A     | N/A     | N/A     | N/A     |
| 2-Day                                      | 95.10   | 96.0    | 96.50   | 95.7    | 96.50   | 94.0    | 96.50   | 95.5    | 96.50   | 95.5    | 96.50   | 94.5    |
| 3-5-Day                                    | 95.00   | 92.5    | 95.25   | 88.6    | 95.25   | 77.3    | 95.25   | 84.8    | 95.25   | 86.6    | 95.25   | 83.5    |
| <b>Presorted Letters/Postcards</b>         |         |         |         |         |         |         |         |         |         |         |         |         |
| Overnight                                  | 96.70   | 97.3    | 96.80   | 97.2    | 96.80   | 96.0    | 96.80   | 96.3    | 96.80   | 96.6    | 96.80   | 96.2    |
| 2-Day                                      | 95.10   | 97.2    | 96.50   | 96.6    | 96.50   | 93.8    | 96.50   | 95.2    | 96.50   | 95.8    | 96.50   | 95.1    |
| 3-5-Day                                    | 95.00   | 95.4    | 95.25   | 92.5    | 95.25   | 88.0    | 95.25   | 91.9    | 95.25   | 93.4    | 95.25   | 92.2    |
| <b>Flats</b>                               |         |         |         |         |         |         |         |         |         |         |         |         |
| Overnight                                  | 96.70   | 86.6    | 96.80   | 84.9    | 96.80   | 83.2    | 96.80   | 84.5    | 96.80   | 84.6    | 96.80   | 82.2    |
| 2-Day                                      | 95.10   | 84.4    | 96.50   | 82.5    | 96.50   | 79.8    | 96.50   | 80.6    | 96.50   | 82.0    | 96.50   | 79.7    |
| 3-5-Day                                    | 95.00   | 77.6    | 95.25   | 72.6    | 95.25   | 65.3    | 95.25   | 70.9    | 95.25   | 73.9    | 95.25   | 71.0    |
| <b>Outbound Single-Piece International</b> |         |         |         |         |         |         |         |         |         |         |         |         |
| Overnight                                  |         | 94.3    |         | 93.0    |         | 90.4    |         | N/A     |         | N/A     |         | N/A     |
| 2-Day                                      |         | 92.7    |         | 93.2    |         | 92.5    |         | 90.6    |         | 90.8    |         | 86.3    |
| 3-5-Day                                    |         | 87.5    |         | 85.7    |         | 82.5    |         | 84.5    |         | 83.7    |         | 81.5    |
| Combined                                   | 94.00   | 88.9    | 94.00   | 87.8    | 94.00   | 85.3    | 94.00   | 86.2    | 94.00   | 85.9    | 94.00   | 83.0    |
| <b>Inbound Letter Post</b>                 |         |         |         |         |         |         |         |         |         |         |         |         |
| Overnight                                  |         | 92.3    |         | 91.8    |         | 88.6    |         | N/A     |         | N/A     |         | N/A     |
| 2-Day                                      |         | 90.7    |         | 89.4    |         | 83.7    |         | 88.1    |         | 90.5    |         | 89.3    |
| 3-5-Day                                    |         | 86.5    |         | 82.9    |         | 71.3    |         | 77.7    |         | 82.7    |         | 80.3    |
| Combined                                   | 94.00   | 88.0    | 94.00   | 85.2    | 94.00   | 75.6    | 94.00   | 81.4    | 94.00   | 85.5    | 94.00   | 83.5    |

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

Source: FY 2018 Service Performance Report at 3-4; FY 2017 Service Performance Report at 4; FY 2016 Service Performance Report at 4; FY 2015 Service Performance Report at 4; Docket No. ACR2014, Library Reference USPS–FY14–29, December 29, 2014, file “Service Performance ACR FY14.pdf,” at 4 (FY 2014 Service Performance Report); Docket No. ACR2013, Library Reference USPS–FY13–29, December 27, 2013, file “Service Performance ACR FY13.pdf,” at 4 (FY 2013 Service Performance Report).

### (3) Postal Service Report

The Postal Service reports that the top root causes for the failure to meet FY 2018 First-Class Mail targets include: origin sites failing to clear outgoing mail on time, mail waiting to be picked up at freight houses, origin sites failing to dispatch network trips on time, origin



sites not clearing Flat operations on time, and Surface Transfer Centers (STCs)<sup>316</sup> not meeting targeted transfer times. FY 2018 Service Performance Report at 8. The Postal Service states that pieces may not clear due to failure to follow the plan set by the Run Plan Generator (RPG). January 11 Responses to CHIR No. 1, question 22. The RPG model uses forecasted data to develop a machine schedule, including start times and throughputs, which is capable of processing all volumes by the intended clearance times. Docket No. ACR2015 Service Response at 7. The Postal Service also states that service performance failures can occur due to failure to obtain target throughputs and a lack of open communications between the sending and receiving sites. January 11 Responses to CHIR No. 1, question 22. The Postal Service observes that a site's failure to follow the RPG plan, obtain target throughputs, and engage in open communications affect all types of First-Class Mail pieces (regardless of product, shape, or service standard). *Id.*

Thus, the Postal Service maintains that it is critical that all sites clear and dispatch all operations on time. *Id.* The Postal Service emphasizes that it will focus on dispatch discipline in FY 2019.<sup>317</sup> The Postal Service discusses its plans to use tools to improve machine utilization (RPG), visualization and team communication (huddle boards), and to identify opportunities to advance the delivery of 3-5-Day First-Class Mail pieces (Informed Visibility (IV) Advance Capture 3 into 2 reporting tool). FY 2018 Service Performance Report at 8-9. The Postal Service states that it has begun to deploy service teams to locations with service performance issues in FY 2019 Quarter 1. January 11 Responses to CHIR No. 1, question 26. The Postal Service intends to hold daily Area<sup>318</sup> teleconferences to ensure sites adhere to all operating plans. January 11 Responses to CHIR No. 1, question 26.

The Postal Service developed data linking the amount (number of percentage points) by which on-time performance for Presorted Letters/Postcards, Single-Piece Letters/Postcards, and single-piece Flats, decreased due to each specific root cause of failure.<sup>319</sup>

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<sup>316</sup> An STC is a Postal Service facility that consolidates and redistributes mailpieces to increase vehicle cubic capacity and utilization. United States Postal Service Publication 32, Glossary of Postal Terms, July 2013 (available at: [http://about.usps.com/publications/pub32/pub32\\_terms.htm](http://about.usps.com/publications/pub32/pub32_terms.htm)). For mailpieces containerized by product type or by ZIP Code range, the STC engages in "cross-docking." *Id.* This refers to transporting but not processing those mailpieces (for example, transporting mailpieces between two vehicles, between a vehicle and a staging area, or between two staging areas). *Id.* Mixed mail volume is sorted for dispatch to the appropriate destination. *Id.*

<sup>317</sup> FY 2018 ACR at 48. "Proper dispatch discipline includes sweeping all available mail for each trip, which means that mail can make the earliest dispatch and reduce the risk of the last trip exceeding capacity." Docket No. ACR2017 Responses to CHIR No. 2, question 9.e.

<sup>318</sup> The Postal Service organizes its network into seven geographic Areas: Capital Metro, Eastern, Great Lakes, Northeast, Pacific, Southern, and Western. Each Area has oversight of subordinate districts, processing and distribution centers, network distribution centers, airport mail centers, international service centers, and remote encoding centers. United States Postal Service, Employee and Labor Relations Manual § 113.3(g), September 2018 (available at: <http://about.usps.com/manuals/elm/elm.htm>).

<sup>319</sup> January 11 Responses to CHIR No. 1, question 20; January 28 Responses to CHIR No. 3, question 10.a.; Responses to CHIR No. 11, question 7.a.

For Presorted Letters/Postcards, these point impacts were developed from the Presort First-Class Mail Root Cause Failure Analysis and were calculated as:

$$(1 - \text{Unweighted Score}) \times \text{Root Cause Category Failure Percentage} \\ = \text{Root Cause Category Point Impact}$$

Responses to CHIR No. 6, question 3.

For single-piece Flats and Single-Piece Letters/Postcards, these point impacts were developed from the EXFC Root Cause Failure Analysis and were calculated as:

$$(1 - \text{EXFC Weighted Score}) \times \text{Root Cause Category Failure Percentage} \\ = \text{Root Cause Category Point Impact}^{320}$$

(4) Comments

The Public Representative observes that no First-Class Mail product met its service performance target in FY 2018 and that results declined compared to the levels observed in FY 2017. PR Comments at 4. Noting that the Postal Service has described its plans to address the “top root causes” of the failure to meet service performance targets, she states that there will be an opportunity during the FY 2019 annual compliance review proceeding to assess whether these plans were able to reverse the decline observed in FY 2018. *Id.* at 13. She urges the Commission to continue taking an active role in driving improvement. *Id.* at 2.

Describing the Postal Service’s failure to meet its First-Class Mail service performance targets since FY 2015, NTU asserts “[t]his pattern of mismanagement and underperformance leaves taxpayers with little faith in the agency.” NTU Comments at 2. NTU suggests that the Commission outline delivery-related goals for the Postal Service along with fair consequences for continued lapses. *Id.* at 3.

ACI observes that the Postal Service fell short of all of its First-Class Mail service performance targets in FY 2018 and asserts that the Postal Service has not been appropriately penalized for the downward trend in service quality and performance. ACI Comments at 1. Acknowledging that the Postal Service’s operational window changes have affected service performance for letters, ACI states this “service deterioration has been, in part, intentional.” *Id.* In reply, the Postal Service “disputes the characterization that any known cost savings initiatives have been conducted with an ‘intentional’ purpose of ‘service deterioration.’” Postal Service Reply Comments at 18-19 n.54 (quoting ACI Comments at 1).

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<sup>320</sup> January 28 Responses to CHIR No. 3, question 10.c. An analysis of the data specific to 3-5-Day Single-Piece Letters/Postcards appears in section V.A.3., *supra*.

NPPC also discusses the decrease in First-Class Mail service performance results from FY 2017 to FY 2018. NPPC Comments at 2. NPPC characterizes the Postal Service's explanations for the failure to meet service performances targets in FY 2018 and optimistic expectations that performance will improve in FY 2019 as "*déjà vu*." *Id.* at 3. NPPC observes that similar descriptions and expectations were provided in the FY 2017 ACR, yet service performance actually declined. *Id.* NPPC states that the Commission could direct the Postal Service to report on the progress and effects of the initiatives it identifies in the preceding ACR. *Id.*

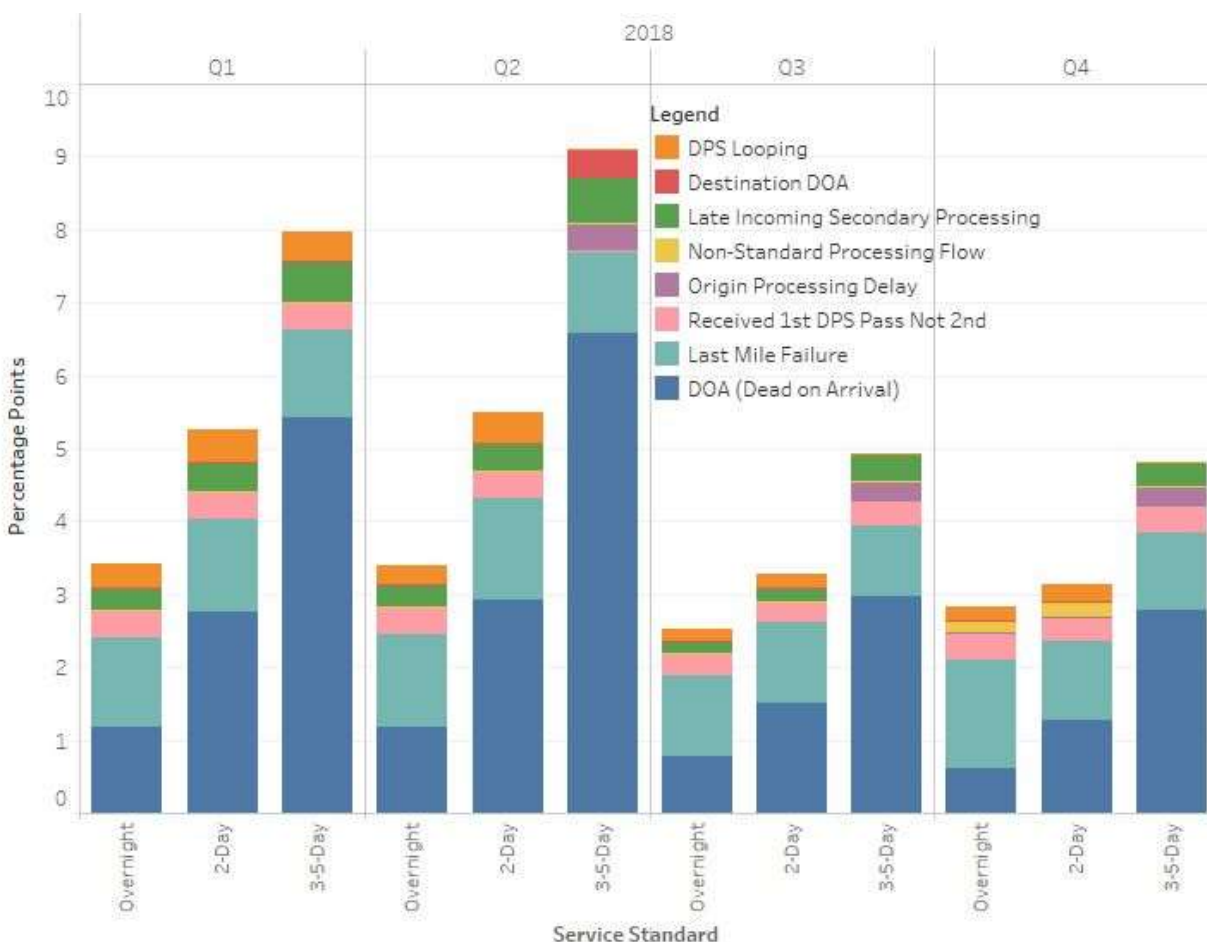
NAPM and Idealliance assert that service performance must be improved for First-Class Mail Presorted Letters/Postcards. NAPM/Idealliance Comments at 6. While observing that service performance for some categories of First-Class Mail has improved since FY 2015, they state that service performance for all First-Class Mail categories remains below FY 2014 levels. *Id.* They express concern that degraded service performance contributes to declining mail volume. *Id.* They state that service performance is important to the businesses using First-Class Mail and that the Postal Service's failure to achieve its percentage on-time service performance targets for 4 years in a row "can have a deleterious impact on a business' decision to use mail as compared to electronic communications." *Id.*

The Postal Service replies that the ACR acknowledges that service performance in FY 2018 fell short of most targets and, in some cases, declined from prior levels. Postal Service Reply Comments at 18-19. The Postal Service asserts that FY 2018 service performance "followed on two consecutive years of improvements in service performance, and more importantly, the Postal Service has outlined specific steps it is taking to reverse the declines." *Id.* at 19.

(5) Commission Analysis

Figure V-5 displays the point impacts of the top five root cause indicators on service performance results for First-Class Mail Presorted Letters/Postcards for each quarter of FY 2018.

**Figure V-5**  
**Nationwide Impact of Top 5 Root Causes on Service Performance Results**  
**for First-Class Mail Presorted Letters/Postcards,**  
**by Service Standard, by Percentage Points, by Quarter, FY 2018**



Source: Additional Results File, tab "Q20 – PFCM."

According to the Postal Service's data for FY 2017 and FY 2018, the largest percentage point impacts on service performance results for Presorted Letters/Postcards are attributed to mailpieces classified as Dead on Arrival (DOA) and those experiencing last mile failure. Below the Commission discusses each of these indicators.

The first indicator, DOA, is assigned if a Presorted Letter/Postcard that is not delivered by its service standard receives the initial scan after 8:00 on the expected day of delivery. Responses to CHIR No. 11, question 7.c.; *see* January 11 Responses to CHIR No. 1, question 24.b. Table V-20 displays the reported percentage point impacts caused by DOA on service performance results for Presorted Letters/Postcards for each quarter of FY 2017 and FY 2018.

**Table V-20**  
**Nationwide Impact of DOA on First-Class Mail Presorted Letters/Postcards Service**  
**Performance Results, by Service Standard, by Percentage Points, by Quarter, FY 2017–FY 2018**

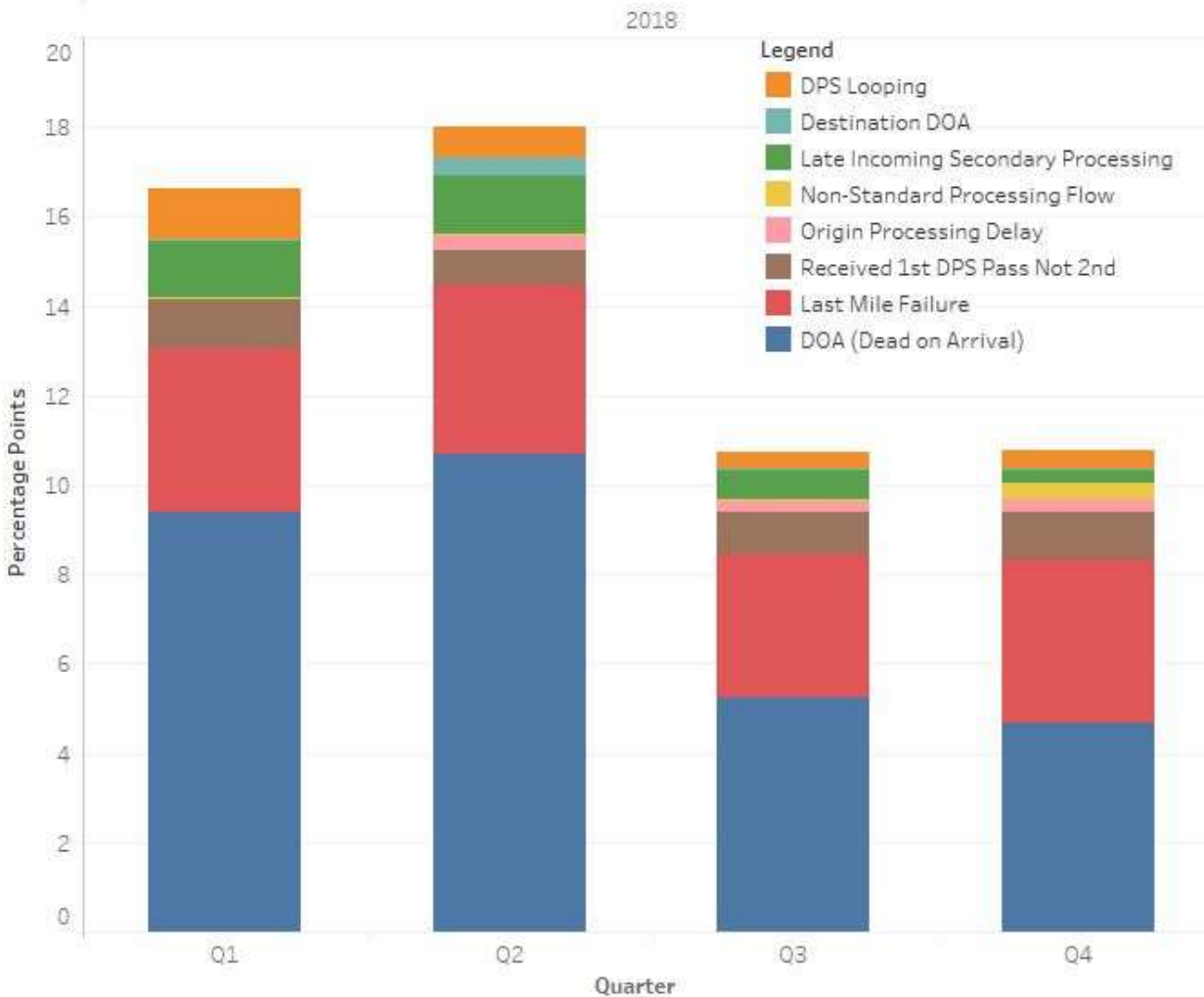
|                  | FY 2017 |      |      |      | FY 2018 |      |      |      |
|------------------|---------|------|------|------|---------|------|------|------|
|                  | Q1      | Q2   | Q3   | Q4   | Q1      | Q2   | Q3   | Q4   |
| <b>Overnight</b> | 0.76    | 0.63 | 0.48 | 0.54 | 1.19    | 1.18 | 0.78 | 0.61 |
| <b>2-Day</b>     | 2.03    | 1.83 | 1.12 | 1.25 | 2.77    | 2.93 | 1.50 | 1.27 |
| <b>3-5-Day</b>   | 4.13    | 3.66 | 2.40 | 2.69 | 5.43    | 6.59 | 2.98 | 2.79 |

Source: Additional Results File, tab "Q20 – PFCM."

For FY 2017 and FY 2018, DOA decreased national service performance results for 2-Day and 3-5-Day Presorted Letters/Postcards more than any other root cause. For these 2 fiscal years, DOA was ranked as the second most impactful cause of the decline in national service performance results for Overnight Presorted Letters/Postcards. For all three service standard categories, FY 2017 and FY 2018 service performance results for Presorted Letters/Postcards were considerably more impacted by DOA mailpieces in Quarters 1 and 2 than in Quarters 3 and 4. For all three service standard categories, the quarterly point impacts of DOA reported in FY 2018 increased over the corresponding quarterly point impacts reported in FY 2017.

For FY 2017 and FY 2018, the overall point impact of DOA was largest on the 3-5-Day service standard category. Moreover, as illustrated by Figure V-6, the FY 2018 quarterly point impacts of DOA on the 3-5-Day service standard category are considerably larger relative to the remaining root cause indicators ranked in the top five.

**Figure V-6**  
**Nationwide Impact of Top Root Causes on Service Performance Results**  
**for 3-5-Day First-Class Mail Presorted Letters/Postcards,**  
**by Percentage Points, by Quarter, FY 2018**



Source: Additional Results File, tab "Q20 – PFCM."

Reducing the amount of DOA mailpieces generally represents an opportunity for service performance improvement. The Commission finds that due to its relative impact, investigating and reducing DOA, particularly for the 3-5-Day service standard and during fiscal Quarters 1 and 2, represent a high-leverage opportunity for the Postal Service to improve nationwide service performance results for Presorted Letters/Postcards.

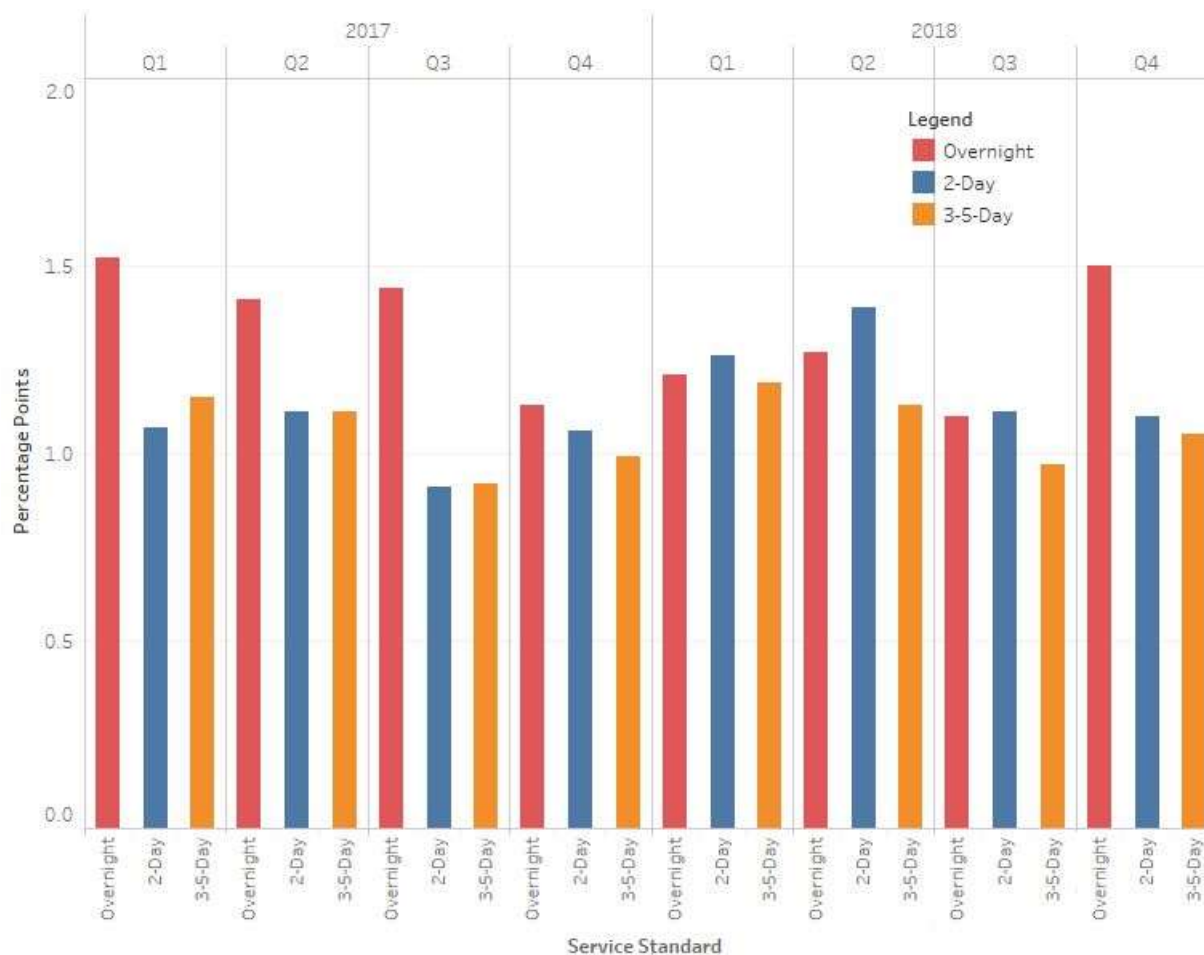
The second indicator, last mile failure, is assigned if the Presorted Letter or Postcard that is not delivered by its service standard:

- receives the correct, final scan at the destination plant before 8:00 on the expected day of delivery
- does not receive a first Delivery Point Sequence (DPS) pass only
- does not experience DPS looping and
- has the appropriate depth of sort given its destination

Responses to CHIR No. 11, question 7.c.; *see* January 11 Responses to CHIR No. 1, question 24.b.

Figure V-7 displays the reported percentage point impacts caused by last mile failures on service performance results for Presorted Letters/Postcards for each quarter of FY 2017 and FY 2018.

**Figure V-7**  
**Nationwide Impact of Last Mile Failures on Service Performance Results**  
**for First-Class Mail Presorted Letters/Postcards, by Service Standard,**  
**by Percentage Points, by Quarter, FY 2017–FY 2018**



Source: Additional Results File, tab "Q20 – PFCM."



For FY 2017 and FY 2018, last mile failures decreased national service performance results for Overnight Presorted Letters/Postcards more than any other root cause. For these 2 fiscal years, last mile failures were ranked as the second most impactful cause of the decline in national service performance results for 2-Day and 3-5-Day Presorted Letters/Postcards. Despite their elevated ranking, last mile failures have not impacted quarterly service performance results for any of the three service standard categories of Presorted Letters/Postcards by more than 1.5 percentage points. The Commission is encouraged by the Postal Service's efforts to keep the point impacts of last mile failures relatively low.

After 2 years of improvements in the First-Class Mail service performance results, FY 2018 results decreased slightly across all categories. While results have not declined to the level observed in FY 2015, the nadir for First-Class Mail service performance results, the Commission is concerned by these decreases. After review of the results, the data discussed above and in section V.A.3., *supra*, the Postal Service's explanations, and the comments, the Commission agrees with commenters that more active monitoring is needed to improve service performance.

The Postal Service's explanations concerning its failure to achieve First-Class Mail service performance targets in FY 2018 and its improvement plans for FY 2019 focus on the need for local facilities to adhere to the Postal Service's existing multi-year national data-driven strategies. The Postal Service specifically references that a site's failure to follow the RPG plan, obtain target throughputs, and engage in open communications affects all First-Class Mail pieces (regardless of product, shape, or service standard). January 11 Responses to CHIR No. 1, question 22. To address these issues, the Postal Service plans to use visualizations of its data analytics to improve communication at and between facilities, improve facility adherence to the existing data-driven operating plans and RPG models, and emphasize dispatch discipline.<sup>321</sup> The Postal Service reports that it is deploying service teams to local facilities and will hold daily Area teleconferences to ensure local adherence to those national strategies in FY 2019. January 11 Responses to CHIR No. 1, question 26. At this juncture, punitive measures appear to be less productive towards improving service performance results than monitoring whether the Postal Service is making progress towards its plan to ensure its local facilities address the root causes of First-Class Mail service performance failure identified by the Postal Service's data analytics.

*The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2018. The Commission also recognizes that the Postal Service has made progress in developing quantitative analysis linking its root cause assessments with the impact on service performance results for First-Class Mail. The Commission directs the Postal*

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<sup>321</sup> See FY 2018 ACR at 47-48; FY 2018 Service Performance Report at 7-8; January 11 Responses to CHIR No. 1, questions 22 and 26; Postal Service Reply Comments at 19 n.56; see also United States Postal Service Reply Comments Regarding FY 2018 Performance Report and FY 2019 Performance Plan, February 22, 2019, at 2 (Postal Service Reply Comments on FY 2018 Performance Report and FY 2019 Performance Plan).

*Service to apply its data leveraging techniques to improve service performance for all First-Class Mail products in FY 2019.*

*The Commission is concerned that service performance results for First-Class Mail Single-Piece Letters/Postcards declined from FY 2017 to FY 2018, and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the fourth year in a row.*

*Therefore, in addition to directing the Postal Service to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2019, the Commission directs the Postal Service to provide information for each of the seven geographic Postal Service Areas on the following two matters.*

- First, for each Area, the Postal Service shall evaluate the efficacy of its FY 2019 efforts to improve First-Class Mail service performance. This evaluation shall describe the Area's progress made toward addressing the top root causes of First-Class Mail service performance failures in FY 2018 and explain how the Area's progress (or lack thereof) toward addressing each root cause has affected on-time service performance for First-Class Mail. Where appropriate, this evaluation shall indicate if the reported progress and effect on performance apply only to particular categories of First-Class Mail pieces (e.g., based on shape, product, or service standard).*
- Second, for each Area, the Postal Service shall provide a detailed plan to improve First-Class Mail service performance that describes each planned action, identifies the problem that the planned action is expected to remediate, and provides an estimated timeframe for implementation and completion of each planned action. Where appropriate, this plan shall indicate if the planned action, underlying problem, and estimated timeframe apply to only particular categories of First-Class Mail pieces (e.g., based on shape, product, or service standard).*

*The report for each Area shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the Area, who will be available to provide prompt responses to requests for clarification from the Commission. The report for each Area shall be filed within 90 days of the issuance of this report. An updated report from each Area shall be filed at the time of the FY 2019 ACR. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2018 should clarification be necessary.*

*Additionally, to facilitate the monitoring of First-Class Mail service performance (particularly for Single-Piece Letters/Postcards), the Commission directs the Postal Service to provide trackable data that is consistently collected and will continue to improve transparency. The Commission directs the Postal Service to provide the following data, described in items 1 through 6 below, for First-Class Mail in FY 2019. Data shall be provided for FY 2019 Quarter 1, Quarter 2, and "mid-year"<sup>322</sup> within 90 days of the issuance of this report. Data shall be*

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<sup>322</sup> Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2019.

*provided for FY 2019 Quarter 3, Quarter 4, “second-half”<sup>323</sup> and annualized for the fiscal year, in the FY 2019 ACR.*

1. *The top five root cause point impacts for First-Class Mail, disaggregated by shape/product and service standard.<sup>324</sup>*
2. *The point impact data for First-Class Mail Single-Piece Letters/Postcards, disaggregated by service standard presented for the nation, each Area, and each district<sup>325</sup> attributable to:*
  - a. *Collection delays*
  - b. *Origin processing delays*
  - c. *Origin missent*
  - d. *AADC/ADC processing delays, presented in three separate tables specific to air transportation, ground transportation, and both*
  - e. *Late incoming secondary processing*
  - f. *Miss by LPO*
  - g. *Last mile failures.*
3. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume.<sup>326</sup>*
4. *The number of CLTs (any HCR that is late more than 4 hours), presented for the nation, each Area, and each district.<sup>327</sup>*
5. *The performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals), presented for the nation, each Area, and each district.<sup>328</sup>*
6. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2019. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2019, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2018.<sup>329</sup>*

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<sup>323</sup> Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2019. Annualized refers to the aggregation of the data for all 4 quarters of FY 2019.

<sup>324</sup> See, e.g., Additional Results File, tabs “Q20 - SPFC” and “Q20 – PFCM.”

<sup>325</sup> See, e.g., Additional Results File, tabs “Q30 Two-Day” and “Q30 Three-to-Five-Day.”

<sup>326</sup> See, e.g., FY 2018 Root Cause File, tab “Q4a.”

<sup>327</sup> See, e.g., FY 2018 Root Cause File, tab “Q4c.”

<sup>328</sup> See, e.g., FY 2018 Root Cause File, tab “Q1a.”

<sup>329</sup> See, e.g., Library Reference USPS–FY18–NP30, December 28, 2018, Excel file “Response2 - ACD.FCM.FY18Q3Q4.Q1b.NONPUBLIC.xlsx.”

*Where appropriate, the Postal Service shall explain the reasons for any differences in calculation of these data in FY 2019 versus FY 2018, and shall propose a method for comparing the FY 2019 data to the FY 2018 data. The Postal Service shall provide these data in an Excel spreadsheet format. If the Postal Service cannot provide responsive data at the requested level of granularity, then responsive data should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2018 should clarification be necessary.*

*The Commission is also concerned that service performance results for First-Class Mail Flats continue to fall substantially short of annual performance targets. However, pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues, so no further action will be taken in this report.*

b. USPS Marketing Mail

(1) FY 2017 Directives

With respect to the four USPS Marketing Mail products that exceeded their service performance targets in FY 2017 (Letters, Carrier Route, Parcels, and High Density and Saturation Letters), the Commission directed the Postal Service to include a detailed and product-specific improvement plan in its FY 2018 ACR if any of these products did not achieve their FY 2018 targets. FY 2017 ACD at 153.

With respect to the three USPS Marketing Mail products that did not achieve their service performance targets in FY 2017 (Flats, High Density and Saturation Flats/Parcels, and Every Door Direct Mail—Retail), the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for these products. *Id.* If service performance results failed to improve, the Commission directed the Postal Service to provide a detailed product-specific improvement plan. *Id.*

To address service performance results for flat-shaped USPS Marketing Mail pieces as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Order No. 4142. That proceeding remains pending. Order No. 5004.

(2) FY 2018 Results

FY 2018 annual service performance results for two products (USPS Marketing Mail Parcels and USPS Marketing Mail High Density and Saturation Letters) exceeded the performance targets set by the Postal Service. Five of the seven USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail) did not achieve their service performance targets. In addition, service performance results for all five of these products were below the service performance results in FY 2017.

Table V-21 shows service performance results compared to the annual on-time percentage targets for all USPS Marketing Mail products from FY 2013 to FY 2018.

**Table V-21**  
**USPS Marketing Mail**  
**Service Performance Results, by Percentage, FY 2013–FY 2018**

|                                      | FY 2013 |         | FY 2014 |         | FY 2015 |         | FY 2016 |         | FY 2017 |         | FY 2018 |         |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                      | Target  | On-Time | Target  | On-Time | Target  | On-Time | Target  | On-Time | Target  | On-Time | Target  | On-Time |
| <b>HDS* Letters</b>                  | 90      | 90.8    | 91      | 92.3    | 91      | 91.5    | 91      | 94.9    | 91      | 95.5    | 91.8    | 93.0    |
| <b>HDS* Flats/Parcels</b>            | 90      | 87      | 91      | 87.2    | 91      | 87      | 91      | 90      | 91      | 90      | 91.8    | 88.3    |
| <b>Carrier Route</b>                 | 90      | 79.7    | 91      | 81.4    | 91      | 82      | 91      | 83.9    | 91      | 91.4    | 91.8    | 89.5    |
| <b>Letters</b>                       | 90      | 85.9    | 91      | 87.1    | 91      | 85.8    | 91      | 90.1    | 91      | 91.8    | 91.8    | 89.4    |
| <b>Flats</b>                         | 90      | 76.9    | 91      | 76.2    | 91      | 73.8    | 91      | 81.4    | 91      | 80.4    | 91.8    | 76.5    |
| <b>Parcels</b>                       | 90      | 98.7    | 91      | N/A     | 91      | 98.1    | 91      | 98.3    | 91      | 98.2    | 91.8    | 98.0    |
| <b>Every Door Direct Mail—Retail</b> | N/A     | N/A     | N/A     | N/A     | 91      | 78.5    | 91      | 75.2    | 91      | 75.4    | 91.8    | 74.4    |

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

\* “HDS” refers to High Density and Saturation.

Source: FY 2018 Service Performance Report at 11; FY 2017 Service Performance Report at 12; FY 2016 Service Performance Report at 12; FY 2015 Service Performance Report at 11; FY 2014 Service Performance Report at 11; FY 2013 Service Performance Report at 10.

### (3) Postal Service Report

The Postal Service reports that the top root causes for the failure to meet FY 2018 USPS Marketing Mail targets include “failure to process mail in First-In-First-Out (FIFO) order and failure to run to daily processing capacity.” FY 2018 Service Performance Report at 13. The Postal Service discusses its plans to use tools for visualization (such as the RPG and huddle boards) and to identify opportunities to advance mail (the IV Marketing Mail Advancement tool). *Id.* at 13-14. The Postal Service states that training will occur in FY 2019 to ensure all management employees understand the FIFO method of mail management. January 11 Responses to CHIR No. 1, question 35.

The Postal Service also reports that the FY 2018 Work in Process (WIP) cycle time—the time between handling and processing—for flat-shaped USPS Marketing Mail pieces increased by 4 hours over the cycle time observed in FY 2017. FY 2018 ACR at 30. In FY 2019, Postal Service plans to reduce the WIP cycle time by re-certifying facilities in Lean Mail Processing, focusing on adherence to the FIFO method of mail management, and improving throughput on mail processing equipment. January 11 Responses to CHIR No. 1, question 18.

The Postal Service developed data linking the amount (number of percentage points) by which on-time performance for USPS Marketing Mail Letters, Flats, mixed product letters,

mixed product flats, High Density and Saturation Letters, High Density and Saturation Flats/Parcels, and Carrier Route decreased due to each specific root cause of failure. *Id.* question 33; Responses to CHIR No. 11, questions 8.a. and 8.d. These point impacts were developed from the Presort Marketing Mail Root Cause Failure Analysis and were calculated as:

$$(1 - \text{Unweighted Score}) \times \text{Root Cause Category Failure Percentage} \\ = \text{Root Cause Category Point Impact}$$

Responses to CHIR No. 6, question 4.

(4) Comments

Comparing FY 2018 results to the prior fiscal year, the Public Representative observes that fewer USPS Marketing Mail products met their service performance targets and that every product's on-time percentage results decreased compared to the levels observed in FY 2017. PR Comments at 7. Similarly, NPPC states the FY 2018 results for every product category of USPS Marketing Mail decreased from the levels reported in FY 2017. NPPC Comments at 3.

NAPM and Idealliance characterize service performance for USPS Marketing Mail as "disappointing, particularly for [USPS] Marketing Mail entered at origin or [Destination Network Distribution Center]." NAPM/Idealliance Comments at 6. They note that the difference in service performance for mailpieces entered via drop shipping versus mailpieces inducted further upstream (which require more Postal Service handling and ground transportation) is "significant." *Id.* They describe the lack of service performance improvement as "disheartening," particularly in light of all of the data and diagnostic tools developed by the Postal Service to monitor mail within its system. *Id.* at 7. Similarly, PostCom observes that "the farther mail is entered from its destination, the worse the Postal Service's service performance." PostCom Comments at 3. Therefore, PostCom asserts that USPS Marketing Mail customers may select destination entry rather than origin entry to ensure better service performance. *Id.* at 4.

(5) Commission Analysis

Consistent with the Commission's expectation, service performance results for USPS Marketing Mail Parcels and USPS Marketing Mail High Density and Saturation Letters continued to exceed their applicable targets in FY 2018.

The remaining USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail) did not achieve their service performance targets. The Commission recognizes that the Postal Service has made progress in developing quantitative analysis linking its root cause assessments with the impact on service performance results for USPS Marketing Mail letter-shaped and flat-shaped mailpieces. The Postal Service should continue to refine and apply its data leveraging techniques to improve service performance for USPS Marketing Mail products that do not achieve their targets.

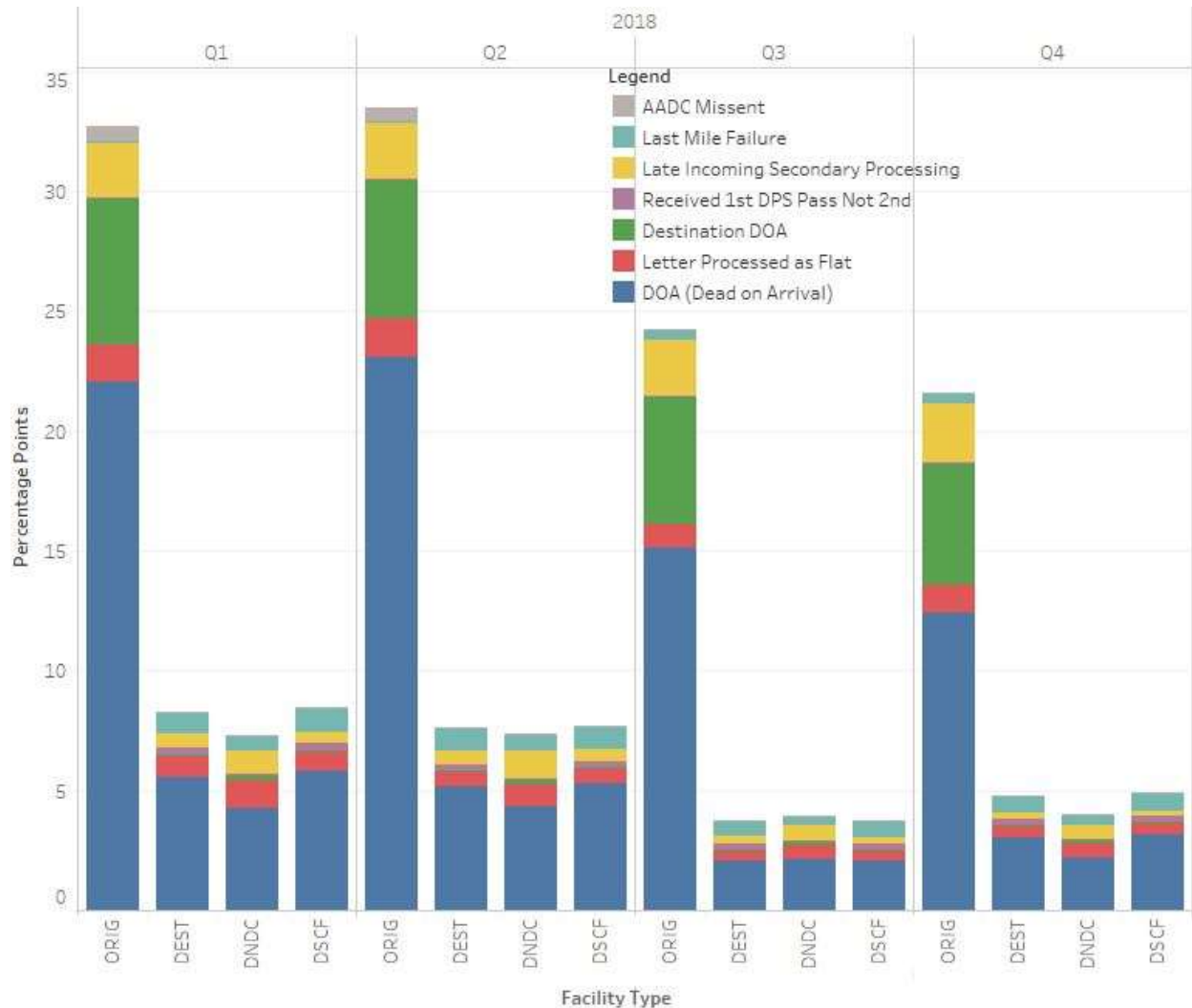
FY 2018 service performance results for High Density and Saturation Flats/Parcels, Letters, and Carrier Route decreased from their corresponding results observed in FY 2017 to levels that are slightly below their targets. Service performance results for USPS Marketing Mail Flats declined for the second year in a row.

FY 2018 results for Every Door Direct Mail—Retail decreased slightly from the corresponding results observed in FY 2017, but remain well below target. Results for this product have been reported for 4 years only and the results have been below the target in all 4 years.

Figure V-8 displays the point impacts of the top five root cause indicators on service performance results for letter-shaped USPS Marketing Mail for each quarter of FY 2018.



**Figure V-8**  
**Nationwide Impact of Top 5 Root Causes on Service Performance Results**  
**for Letter-Shaped USPS Marketing Mail,**  
**by Entry Type, by Percentage Points, by Quarter, FY 2018**



Notes: DEST refers to mailpieces inducted at the designated Destination Delivery Unit (DDU) for delivery within the DDU area. DNDC refers to mailpieces inducted at the Destination Network Distribution Center. DSCF refers to mailpieces inducted at the Destination sectional center facility. ORIG refers to mailpieces that are not inducted at a destination processing facility, and therefore are transported from an origin processing facility to a destination processing facility (End-to-End).

Source: Additional Results File, tab "Q33 MKT."

According to the Postal Service's root cause data for FY 2017 and FY 2018, the largest percentage point impact on letter-shaped and flat-shaped pieces is attributed to pieces classified as DOA. Additional Results File, tab "Q33\_MKT." The first indicator, DOA, is assigned if a mailpiece that is not delivered by its service standard receives the initial scan after 8:00 on the expected day of delivery. Responses to CHIR No. 11, question 8.c.; see January 11 Responses to CHIR No. 1, question 24.b.

For FY 2017 and FY 2018, DOA was reported as causing a larger quarterly percentage point impact on service performance results for both letter- and flat-shaped mailpieces transported End-to-End (inducted at an origin processing facility and transported to a destination processing facility) as compared to mailpieces of the same shape inducted at an entry point closer to the destination facility.

Table V-22 displays the reported percentage point impacts caused by DOA on service performance results for letter- and flat-shaped USPS Marketing Mail for each quarter of FY 2017 and FY 2018.

**Table V-22**  
**Nationwide Impact of DOA on USPS Marketing Mail Service Performance Results, by Shape and Entry Level, by Percentage Points, by Quarter, FY 2017–FY 2018**

|                | Flats |      |      |              | Letters |      |      |              |
|----------------|-------|------|------|--------------|---------|------|------|--------------|
|                | DEST  | DNDC | DSCF | ORIG         | DEST    | DNDC | DSCF | ORIG         |
| <b>FY17 Q1</b> | 3.29  | 1.99 | 3.54 | <b>14.18</b> | 3.15    | 2.90 | 3.19 | <b>15.64</b> |
| <b>FY17 Q2</b> | 1.45  | 1.00 | 1.55 | <b>16.81</b> | 1.91    | 2.03 | 1.89 | <b>15.46</b> |
| <b>FY17 Q3</b> | 0.87  | 0.75 | 0.90 | <b>14.29</b> | 1.27    | 1.27 | 1.27 | <b>12.40</b> |
| <b>FY17 Q4</b> | 1.54  | 1.10 | 1.65 | <b>13.49</b> | 1.94    | 1.78 | 1.96 | <b>12.97</b> |
| <b>FY18 Q1</b> | 4.08  | 2.30 | 4.38 | <b>20.51</b> | 5.58    | 4.29 | 5.79 | <b>22.07</b> |
| <b>FY18 Q2</b> | 2.20  | 1.78 | 2.29 | <b>22.39</b> | 5.18    | 4.32 | 5.33 | <b>23.08</b> |
| <b>FY18 Q3</b> | 0.87  | 1.04 | 0.83 | <b>14.33</b> | 2.10    | 2.13 | 2.10 | <b>15.12</b> |
| <b>FY18 Q4</b> | 0.92  | 1.10 | 0.89 | <b>12.46</b> | 3.06    | 2.23 | 3.20 | <b>12.45</b> |

Notes: DEST refers to mailpieces inducted at the designated Destination Delivery Unit (DDU) for delivery within the DDU area. DNDC refers to mailpieces inducted at the Destination Network Distribution Center. DSCF refers to mailpieces inducted at the Destination sectional center facility. ORIG refers to mailpieces that are not inducted at a destination processing facility, and therefore are transported from an origin processing facility to a destination processing facility (End-to-End).

Source: Additional Results File, tab "Q33 MKT."

These data show that in FY 2017 and FY 2018 letter- and flat-shaped USPS Marketing Mail entered at origin were significantly more likely to be classified as DOA than mailpieces of the same shape inducted further into the mail stream.

Consistent with the Commission's observations in prior ACDs, service performance results for 6-10-Day USPS Marketing Mail products transported End-to-End remain relatively low compared to the results at the product level. *See* FY 2017 ACD at 152; FY 2016 ACD at 139; FY 2015 ACD at 140-41. In FY 2018, 6-10-Day USPS Marketing Mail products transported End-to-End represented 6.3 percent of total measured USPS Marketing Mail. January 11 Responses to CHIR No. 1, question 36.

Table V-23 shows that generally in FY 2018, service performance results for the 6-10-Day End-to-End category remain well below product-level results.

**Table V-23**  
**USPS Marketing Mail Service Performance Results Comparision,**  
**by Percentage, FY 2013–FY 2018**

|                           | Results for the 6-10-Day End-to-End Category |         |         |         |         |         | Results at the product level |
|---------------------------|--|---------|---------|---------|---------|---------|------------------------------|
|                           | FY 2013                                      | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2018                      |
| <b>HDS* Letters</b>       | 57.9   | 56.5    | 57.4    | 61.5    | 67.2    | 64.6    | 93.0                         |
| <b>HDS* Flats/Parcels</b> | N/A  | 72.7    | 54.4    | 56.9    | 69.2    | 57.4    | 88.3                         |
| <b>Carrier Route</b>      | 64.5   | 60.2    | 60.6    | 67.0    | 73.5    | 70.7    | 89.5                         |
| <b>Letters</b>            | 59.8   | 56.7    | 48.6    | 55.4    | 53.3    | 58.4    | 89.4                         |
| <b>Flats</b>              | 53.1   | 52.9    | 45.1    | 50.3    | 53.6    | 51.2    | 76.5                         |
| <b>Parcels**</b>          | N/A  | N/A     | N/A     | 95.5    | 94.4    | 94.2    | 98.0                         |

Notes: Numbers in red indicate service performance results reported for the 6-10-Day service standard category that did not meet or exceed the annual service performance target for the product. In FY 2013, the target for all USPS Marketing Mail products was 90.0 percent. In FY 2014 through FY 2017, the target for all USPS Marketing Mail products was 91.0 percent. In FY 2018, the target for all USPS Marketing Mail products was 91.8 percent. Every Door Direct Mail—Retail does not offer 6-10-Day End-to-End service.

\* “HDS” means High Density and Saturation.

\*\* Results for Parcels were not provided for the 6-10-Day End-to-End category from FY 2013 through FY 2015.

Source: United States Postal Service *Quarterly Service Performance Reports*, FY 2013–FY 2018, Quarter 4, USPS Marketing Mail–High Density and Saturation Letters Scores Report, USPS Marketing Mail–High Density and Saturation Flats/Parcels Scores Report, USPS Marketing Mail–Carrier Route Scores Report, USPS Marketing Mail–Letters Scores Report, USPS Marketing Mail–Flats Scores Report, USPS Marketing Mail–Parcels Scores Report, USPS Marketing Mail–Every Door Direct Mail–Retail Scores Report (available at: <http://www.prc.gov/documents/quarterly-performance>).

The Commission encourages the Postal Service to reduce the number of CLTs to improve service performance for all mailpieces transported End-to-End. Specifically, reducing the number of CLTs represents a high leverage opportunity for the Postal Service to improve service performance for 6-10-Day USPS Marketing Mail products transported End-to-End. See FY 2017 ACD at 152-53.

*The Commission finds that the Postal Service has met its service performance targets for USPS Marketing Mail Parcels and USPS Marketing Mail High Density and Saturation Letters in FY 2018. The Commission expects that service performance results for these products will continue to achieve or exceed their on-time performance targets in FY 2019.*

*The Commission expects that the service performance results for the USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail) that did not achieve their FY 2018 service performance targets will improve in FY 2019. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for these products.*

*FY 2018 marked the second consecutive year in which USPS Marketing Mail Flats service performance results declined. Moreover, USPS Marketing Mail Flats service performance results continued to fall substantially short of its annual performance target. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues.*

*If the service performance results for any USPS Marketing Mail product do not achieve the applicable annual service performance target in FY 2019, then the FY 2019 ACR shall include: (1) the top five root cause point impacts for the product for each quarter and annually for FY 2019, disaggregated by shape/product and entry level/service standard; (2) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve this product's service performance (including any progress toward addressing the applicable top root cause point impacts reported for FY 2018); and (3) a detailed plan explaining how this product's results will be improved. If the Postal Service cannot provide responsive data at the requested level of granularity, then responsive data should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. Where appropriate, the Postal Service shall specifically address how the evaluation and plan apply to mailpieces by entered at origin versus mailpieces entered further into the mail stream.*

c. Periodicals

(1) FY 2017 Directives

Finding that both Periodicals products did not meet their FY 2017 service performance targets, the Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. FY 2017 ACD at 155. To address these products' service performance results as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Order No. 4142. That proceeding remains pending. Order No. 5004.

(2) FY 2018 Results

FY 2018 annual service performance results for Periodicals remain the same as FY 2017 levels. Table V-24 shows service performance results compared to the FY 2018 annual target of 91.8 percent on-time for both Periodicals products from FY 2013 to FY 2018.

**Table V-24**  
**Periodicals**  
**Service Performance Results, by Percentage, FY 2013–FY 2018**

|                       | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2018 Target* |
|-----------------------|---------|---------|---------|---------|---------|---------|-----------------|
| <b>In-County</b>      | 82.0    | 80.9    | 77.7    | 80.1    | 85.6    | 85.6    | 91.8            |
| <b>Outside County</b> | 82.1    | 80.8    | 77.6    | 79.7    | 85.3    | 85.3    | 91.8            |

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

\* In FY 2013 through FY 2017, the targets for In County and Outside County Periodicals were 91.0 percent.

Source: FY 2018 Service Performance Report at 14; FY 2017 Service Performance Report at 16; FY 2016 Service Performance Report at 18; FY 2015 Service Performance Report at 15; FY 2014 Service Performance Report at 15; FY 2013 Service Performance Report at 13.

### (3) Postal Service Report

The Postal Service reports that the top root causes for the failure to meet FY 2018 Periodicals targets include failure to process mail in FIFO order and failure to run to daily processing capacity. FY 2018 Service Performance Report at 16. The Postal Service does not have root cause point impact data specific to Periodicals. January 11 Responses to CHIR No. 1, question 37.

The Postal Service also discusses its plans to use IV tools to identify pinch points and improve cycle time. FY 2018 Service Performance Report at 16. In FY 2019, the Postal Service plans to maintain its focus on reducing the WIP cycle time—the time between handling and processing—for Periodicals. *Id.* The Postal Service reports that the FY 2018 WIP cycle time for flat-shaped Periodicals increased by 3 hours over the cycle time observed in FY 2017. FY 2018 ACR at 30. In FY 2019, the Postal Service plans to reduce the WIP cycle time by re-certifying facilities in Lean Mail Processing, focusing on adherence to the FIFO method of mail management, and improving throughput on mail processing equipment. January 11 Responses to CHIR No. 1, question 18. The Postal Service states that training will occur in FY 2019 to ensure all management employees understand the FIFO method of mail management. *Id.* question 39. The Postal Service also reports that quarterly audits will be performed to ensure sort programs for Periodicals align with the labeling list. FY 2018 Service Performance Report at 16.

### (4) Comments

Noting that both Periodicals products failed to meet their service performance targets in FY 2018, the Public Representative also acknowledges that neither product reported a decrease in on-time performance from FY 2017 to FY 2018, unlike most of the Postal Service's other market dominant products. PR Comments at 8.

(5) Commission Analysis

Neither Periodicals product met service performance targets in FY 2018. After 2 years of consecutive improvement, FY 2018 service performance results for Periodicals remained equal to FY 2017 results. The Postal Service should make efforts to develop quantitative analysis linking its root cause assessments with the impact on service performance results for Periodicals mailpieces similar to the data leveraging techniques developed for USPS Marketing Mail.

*In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets in FY 2018. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. The Commission also directs that the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve service performance for In-County and Outside County Periodicals (including any progress toward addressing the failure to process mail in FIFO order and failure to run to daily processing capacity described in the FY 2018 ACR) and (2) a detailed plan explaining how these products' results will be improved.*

d. Package Services

(1) FY 2017 Directives

The Commission found that FY 2017 was the sixth consecutive year that the service performance results for BPM Flats “were substantially below other Package Services products and the applicable percentage on-time service performance target.” FY 2017 ACD at 158. The Commission directed the Postal Service to apply its data leveraging techniques to improve service performance for this product. *Id.* To address this product's service performance results as well as the systemic and long-standing cost and service issues related to flats processing, the Commission initiated a strategic rulemaking to develop proposed reporting requirements related to flats operational cost and service issues. Order No. 4142. That proceeding remains pending. Order No. 5004.

(2) FY 2018 Results

FY 2018 annual service performance results for BPM Parcels exceeded annual targets for the seventh consecutive year. Service performance results for BPM Flats remain below target. After 6 consecutive years of exceeding the applicable percentage on-time service performance target, Media Mail/Library Mail results declined to 89.6 percent, below the 90.0 percent target. FY 2018 Service Performance Report at 18.

Table V-25 shows service performance results compared to the annual target of 90.0 percent on-time for Package Services products from FY 2013 to FY 2018.

**Table V-25**  
**Package Services**  
**Service Performance Results, by Percentage, FY 2013–FY 2018**

|                                     | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | Target |
|-------------------------------------|---------|---------|---------|---------|---------|---------|--------|
| <b>Bound Printed Matter Flats</b>   | 62.6    | 60.2    | 45.2    | 53.6    | 56.7    | 55.2    | 90.0   |
| <b>Bound Printed Matter Parcels</b> | 98.4    | 99.3    | 99.4    | 99.2    | 99.1    | 99.0    | 90.0   |
| <b>Media Mail/Library Mail</b>      | 93.3    | 91.7    | 91.2    | 92.2    | 91.0    | 89.6    | 90.0   |

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

The Commission approved a semi-permanent exception for service measurement of Alaska Bypass. Docket No. RM2015-1, Order Concerning Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Alaska Bypass Service, December 23, 2014 (Order No. 2303).

Source: FY 2018 Service Performance Report at 18; FY 2017 Service Performance Report at 20; FY 2016 Service Performance Report at 22; FY 2015 Service Performance Report at 18; FY 2014 Service Performance Report at 20; FY 2013 Service Performance Report at 18.

### (3) Postal Service Report

Generally, the Postal Service reports on issues related to the service performance of BPM Flats and Media Mail/Library Mail and describes its efforts to improve results for both products. FY 2018 Service Performance Report at 20-21.

The percentage of mail in measurement for both products increased from the levels reported in FY 2017—approximately 14 percent of total BPM Flats volume and 76 percent of total Media Mail/Library Mail volume was in measurement in FY 2018. FY 2018 Service Performance Report at 19. The Postal Service does not have root cause point impact data specific to BPM Flats or Media Mail/Library Mail. January 11 Responses to CHIR No. 1, question 40.

With respect to BPM Flats, the FY 2018 ACR generally reiterates the narratives provided in prior ACRs relating to three issues: manual handling, advanced processing, and review of the product's entry and make-up requirements.

First, the Postal Service maintains that BPM Flats experience manual handling due to incompatibility with flat or package sorting equipment and comingling of non-automated

and automated BPM Flats.<sup>330</sup> The Postal Service restates that it does not track the volume or percentage of BPM Flats that are processed manually.<sup>331</sup> Again, the Postal Service summarizes the RPW data relating to the mail characteristics of BPM Flats that affect manual handling (piece weight, entry, and presort level). *Id.*

Second, the Postal Service echoes its prior remarks regarding its continued efforts to advance processing “to day zero (day of acceptance)” for BPM Flats.<sup>332</sup> Day zero refers to the start-the-clock date. January 11 Responses to CHIR No. 1, question 44. If the first automation scan occurs on the same day as the start-the-clock date, then those pieces are counted as being processed on day zero. *Id.* In FY 2018, the Postal Service advanced processing to day zero for 14.05 percent of measured BPM Flats. *Id.*

Third, the Postal Service again references its continued review of the entry and make-up requirements for BPM Flats.<sup>333</sup> The Postal Service reports that no changes were implemented in FY 2018 and that none are planned for FY 2019. January 11 Responses to CHIR No. 1, question 43.

The Postal Service states that Media Mail/Library Mail also experience manual handling due to comingling with BPM Flats. FY 2018 Service Performance Report at 20. Additionally, the Postal Service estimates that nearly all parcel-shaped pieces, which comprise 91.25 percent of total Media Mail/Library Mail volume, receive a manual incoming secondary sortation. January 11 Responses to CHIR No. 1, question 42. The Postal Service does not identify any planned actions specific to improving Media Mail/Library Mail’s service performance, but indicates this product’s entry and make-up requirements are under review. FY 2018 Service Performance Report at 20-21.

#### (4) Comments

Comparing FY 2018 results to the prior fiscal year, the Public Representative observes that fewer Package Services products met their service performance targets and that every product’s on-time percentage results decreased compared to the levels observed in FY 2017. PR Comments at 8.

#### (5) Commission Analysis

Service performance results for BPM Parcels have exceeded the applicable service performance target since FY 2013.

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<sup>330</sup> Compare FY 2018 Service Performance Report at 20, with FY 2017 Service Performance Report at 22-23, and FY 2016 Service Performance Report at 24-25, and FY 2015 Service Performance Report at 20-21.

<sup>331</sup> Compare January 11 Responses to CHIR No. 1, question 42, with Docket No. ACR2017 Responses to CHIR No. 2, question 11.

<sup>332</sup> Compare FY 2018 Service Performance Report at 20, with FY 2017 Service Performance Report at 23, and FY 2016 Service Performance Report 9 at 25, and FY 2015 Service Performance Report at 21.

<sup>333</sup> Compare FY 2018 Service Performance Report at 20-21, with FY 2017 Service Performance Report at 23, and FY 2016 Service Performance Report at 25, and FY 2015 Service Performance Report at 21.



From FY 2015 to FY 2017, service performance results for BPM Flats improved by a total of 11.5 percentage points. In FY 2018, results decreased slightly (1.5 percentage points) from the level observed in FY 2017. Generally, the Postal Service explains that manual processing decreases the efficient handling of BPM Flats. The Commission acknowledges the unique characteristics of BPM Flats. The Commission also recognizes that the Postal Service has made some progress in increasing the volume and percentage of BPM Flats in measurement and in tracking the volume and percentage of BPM Flats that are advanced to day zero. Otherwise, the Postal Service's plan for improving this product's on-time service performance does not appear to include the tracking of data that would demonstrate which (if any) of the Postal Service's multi-year efforts have been successful. This issue is under review in pending Docket No. RM2018-1. The Postal Service should make efforts to develop quantitative analysis linking its root cause assessments with the impact on service performance results for BPM Flats similar to the data leveraging techniques developed for USPS Marketing Mail.

Service performance results for Media Mail/Library Mail have typically exceeded the on-time service performance target. In FY 2018, results for this product declined to a level that is slightly below the target. The Postal Service should apply its data leveraging techniques to improve service performance for this product.

*BPM Parcels service performance results continue to exceed the Postal Service's annual service performance targets.*

*FY 2018 BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the seventh consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for BPM Flats. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. The Commission also directs that the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve service performance for BPM Flats (including any progress toward addressing the manual processing issues described in the FY 2018 ACR) and (2) a detailed plan explaining how this product's results will be improved.*

*FY 2018 Media Mail/Library Mail service performance results were near the service performance target. The Commission expects that the service performance results for Media Mail/Library Mail will improve in FY 2019. If the results for Media Mail/Library Mail do not achieve the service performance target in FY 2019, then the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve service performance for Media Mail/Library Mail (including any progress toward addressing the manual processing issues described in the FY 2018 ACR) and (2) a detailed plan explaining how this product's results will be improved.*

e. Special Services

(1) FY 2017 Directives

Finding that “[t]he Postal Service exceeded service performance results for all reported Special Services products, except for Post Office Box Service, which was near its service performance target” in FY 2017, the Commission stated its expectation that service performance for Post Office Box Service would improve in FY 2018. FY 2017 ACD at 160. The Commission directed the Postal Service to evaluate the efficacy of the six planned actions identified in its FY 2017 ACR and provide a detailed plan to improve performance if the product’s results did not meet the target in FY 2018. *Id.*

(2) FY 2018 Results

Service performance results exceeded targets for each product within the Special Services class, with the exception of Post Office Box Service. The Post Office Box Service result was 88.2 percent, below the 90.0 percent target. FY 2018 Service Performance Report at 23. Table V-26 shows the service performance results compared to the annual target of 90.0 percent on-time for Special Services products from FY 2013 to FY 2018.

**Table V-26**  
**Special Services**  
**Service Performance Results, by Percentage, FY 2013–FY 2018**

|   | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | Target |
|---|---------|---------|---------|---------|---------|---------|--------|
| <b>Ancillary Services</b>               | 91.4    | 92.3    | 92.1    | 91.7    | 91.5    | 91.4    | 90.0   |
| <b>International Ancillary Services</b> | 99.3    | 99.7    | 99.7    | 99.7    | 99.7    | 99.7    | 90.0   |
| <b>Address List Services</b>            | 100     | 33.3    | 100     | -       | -       | -       | 90.0   |
| <b>Money Orders</b>                     | 99.2    | 98.3    | 99.3    | 99.2    | 99.1    | 99.3    | 90.0   |
| <b>Post Office Box Service</b>          | 90.9    | 90.2    | 89.7    | 89.7    | 88.9    | 88.2    | 90.0   |
| <b>Stamp Fulfillment Services</b>       | 99.5    | 98.4    | 97.1    | 99.4    | 99.6    | 99.5    | 90.0   |

Notes: Numbers in red indicate service performance results that did not meet or exceed the annual service performance target.

There were no orders for Address List Services in FY 2016 through FY 2018. FY 2018 Service Performance Report at 23; FY 2017 Service Performance Report at 25; FY 2016 Service Performance Report at 27.

The Commission approved a semi-permanent exception for service measurement of the following Special Services: hard-copy Address Correction Service, Applications and Mailing Permits, Business Reply Mail®, Bulk Parcel Return Service, Certificate of Mailing, Merchandise Return Service, Parcel Airlift, Restricted Delivery, Shipper-Paid Forwarding, Special Handling, Stamped Envelopes, Stamped Cards, Premium Stamped Stationery, Premium Stamped Cards, International Certificate of Mailing, outbound International Registered Mail, International Return Receipt, International Restricted Delivery, International Insurance in conjunction with Inbound Surface Parcel Post (at UPU Rates), Customs Clearance and Delivery Fee, Caller Service, Change of Address Credit Card Authorization, International Reply Coupon Service, International Business Reply Mail, and Money Orders (sales aspect of this service only, not inquiries). Docket No. RM2010-11, Order Concerning Postal Service Request for Semi-Permanent Exceptions from Periodic Reporting of Service Performance Measurement, September 30, 2010 (Order No. 531); Docket No. RM2010-14, Order Approving Semi-Permanent Exception from Periodic Reporting of Service Performance Measurement for Applications and Mailing Permits, October 27, 2010 (Order No. 570).

Source: FY 2018 Service Performance Report at 22-23; FY 2017 Service Performance Report at 25; FY 2016 Service Performance Report at 27; FY 2015 Service Performance Report at 23; FY 2014 Service Performance Report at 25; FY 2013 Service Performance Report at 22.

### (3) Postal Service Report

With respect to Post Office Box Service, the Postal Service summarizes that it made some progress on the six planned actions, but that the failure to complete all six planned actions affected the Postal Service's ability to meet the product's service performance target. January 11 Responses to CHIR No. 1, question 46. The Postal Service states its intention to complete all six planned actions in FY 2019. *Id.*

The Postal Service discusses the status of each of the six actions identified in its FY 2017 ACR. FY 2018 Service Performance Report at 25-26. First, the Postal Service reports that it did not complete the seven Lean Six Sigma projects in FY 2018 and that the Postal Service intends for each of the seven Postal Service Areas to complete a project by the end of FY 2019 Quarter 3. *Id.* at 25. Second, the Postal Service reports that it maintains standardized methods for calculating workload and did not include any additional activity in FY 2018 for

the workload calculations for the Post Office Box labor distribution code (LDC 44). *Id.* Reporting that improving efficiency in LDC 44 may be possible, the Postal Service states that it will leverage the results of the Lean Six Sigma projects to improve performance in FY 2019. *Id.* Third, the Postal Service reports conducting over 1,045 on-site Function 4<sup>334</sup> reviews in FY 2018, which include review of Post Office Box operations. FY 2018 Service Performance Report at 25. The Postal Service plans to leverage the results of the Lean Six Sigma projects to specifically include review of the P.O. Box Up time<sup>335</sup> in FY 2019. FY 2018 Service Performance Report at 26. Fourth, the Postal Service reports that it uses the existing Scan Point Management System to monitor the product's performance and restates its plan to develop a new dashboard to display key Post Office Box Service metrics. *Id.* Fifth, the Postal Service states that each unit is required to update its e1994 scheduling tool in Quarter 4 of each fiscal year (using Quarter 3 data) to align staffing with workload for customer service activities, including Post Office Box services. *Id.* Sixth, the Postal Service reports rolling out its Pre-Planning Tool in FY 2019, which clearly articulates the need to ensure that all units schedule sufficiently for Post Office Box operations. *Id.*

The Postal Service does not have root cause point impact data specific to Post Office Box Service. January 11 Responses to CHIR No. 1, question 45.

#### (4) Comments

The Public Representative observes that every reported Special Services product achieved its service performance target in FY 2018, except that Post Office Box Service results were slightly below target. PR Comments at 9.

#### (5) Commission Analysis

Service performance results for Ancillary Services, International Ancillary Services, Money Orders, and Stamp Fulfillment Services have exceeded the applicable percentage on-time service performance targets since FY 2013.

For FY 2018, service performance results for Post Office Box Service remained below target and declined from the level reported in FY 2017. Overall, the Postal Service's improvement plan is focused on the proper alignment of staffing with the P.O. Box Up time at the local level. The Postal Service represents that not completing all six actions during FY 2018 impacted service performance and that all six actions are intended for completion during FY 2019. Multiple actions identified in the Postal Service's remediation strategy are connected with the planned completion of a Lean Six Sigma project event in each Area by the end of FY 2019 Quarter 3.

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<sup>334</sup> "Function 4" includes customer service activities of employees at post offices, stations, and branches involved in distribution of mail to carriers and to Post Office Boxes, retail window services, and miscellaneous administrative and Computerized Forwarding System operations. United States Postal Service Publication 32, Glossary of Postal Terms, July 2013 (available at: [http://about.usps.com/publications/pub32/pub32\\_terms.htm](http://about.usps.com/publications/pub32/pub32_terms.htm)).

<sup>335</sup> "P.O. Box Up time" refers to the time of day at which mail will be finalized and available to Post Office Box customers. See United States Postal Service, Postal Bulletin 22289, July 15, 2010, at 10 (citing Postal Operations Manual § 141.423). The local postmaster establishes the local P.O. Box Up time with district approval. *Id.*

*The Postal Service exceeded service performance targets for all reported Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service will improve in FY 2019. If the results for Post Office Box Service do not achieve the service performance target in FY 2019, then the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts (including the six planned actions described in the FY 2018 ACR) to improve on-time service performance for this product and (2) a detailed plan explaining how this product's results will be improved.*

## 5. Other Issues

Two commenters discuss their general views on service performance. The Public Representative notes that the FY 2017 percentage on-time results represented an increase over the prior fiscal year for most products; however, she states that those improvements in service performance “regressed since FY 2017.” PR Comments at 12. She explains that in FY 2018, service performance results for all but four products decreased from the levels reported in FY 2017, which she characterizes as an “apparent systematic decline.” *Id.* Similarly, NPPC states “the last two years have reawakened serious service concerns that transcend isolated trouble spots with discrete causes.” NPPC Comments at 1-2 n.3.

Multiple participants provide comments on the Postal Service's setting of its percentage on-time service performance targets. While expressing concern with the Postal Service's inability to meet its service performance targets, the Public Representative suggests that it is possible that the Postal Service has set some targets unrealistically high. PR Comments at 12. On the other hand, two commenters indicate that they consider some service performance targets to be set too low. NPPC Comments at 4; NAPM/Idealliance Comments at 6. NPPC asserts that the service performance targets set by the Postal Service in the 90th percentiles could discourage some mailers from using the Postal Service because some business mailers set higher targets (often 100 percent) for on-time performance of mail presented to the Postal Service.<sup>336</sup>

NAPM and Idealliance express support for the development of a methodology, through a Commission proceeding, to exclude service performance data from measurement in specific geographic areas severely impacted by natural disasters. NAPM/Idealliance Comments at 7. They state that developing such a methodology could make comparisons of service performance from prior years more meaningful. *Id.* The Postal Service replies that it will work to identify mailpieces impacted by unforeseen events outside of the Postal

<sup>336</sup> NPPC Comments at 4. NPPC states that “[t]he Postal Service did not change its performance targets from FY 2017 to FY 2018,” and provides its view of the proposal set forth in Docket No. RM2017-3. *Id.* at 4 n.5. The Postal Service increased its percentage on-time performance targets for USPS Marketing Mail and Periodicals from 90.0 percent to 91.8 percent; all other percentage on-time performance targets were unchanged. NPPC's position on the proposal in Docket No. RM2017-3 is already on record in that proceeding, which is pending before the Commission. See generally Docket No. RM2017-3, Comments of the National Postal Policy Council, the Major Mailers Association, and the National Association of Presort Mailers, March 1, 2018; Docket No. RM2017-3, Reply Comments of the National Postal Policy Council, the Major Mailers Association, and the National Association of Presort Mailers, March 30, 2018.

Service's control, including but not limited to weather, in FY 2019. Postal Service Reply Comments at 20. The Postal Service asserts that these data would enable it to more accurately quantify impacts from these events and diagnose service failures. *Id.* The Postal Service asserts that these data would enable it to report on service performance both with impacted pieces included, and excluded. *Id.*

NPPC remarks on the lack of detail provided in the discussion of service performance in the Postal Service's FY 2018 Annual Performance Report.<sup>337</sup>

The Commission acknowledges the issues raised by the commenters and values the commenters' participation and perspectives. These views inform the Commission's work.

Although the decreases in service performance results observed in FY 2018 are not as sharp as the decline observed in FY 2015, the Commission agrees with commenters that decreases affecting nearly all categories of mail are concerning. The Commission expects that the Postal Service's FY 2019 ACR will demonstrate the Postal Service's commitment to improving service performance, and the Commission has developed directives to guide the Postal Service to provide more transparency regarding the progress and effects of its existing multi-year national service performance improvement strategies. These directives are discussed specific to each class in section V.A.4., *supra*.

With respect to the suggestions concerning the Postal Service's setting of its percentage on-time performance targets, the Commission encourages the Postal Service to reach out to stakeholders and consider their views.

With respect to the suggested development of a methodology to exclude certain service performance data, interested parties may request that the Commission initiate a proceeding "to improve the quality, accuracy, or completeness of Postal Service data required by the Commission . . . whenever it shall appear that . . . the quality of service data has become significantly inaccurate or can be significantly improved." 39 U.S.C. § 3652(e)(2)(B). Additionally, the rules appearing in part 3055 of Title 39 of the Code of Federal Regulations apply to the reporting of service performance.

Multiple information requests were issued to obtain additional detail concerning the discussion of service performance appearing in the United States Postal Service FY 2018 Annual Report to Congress. *See* CHIR No. 2, questions 1-5; *see also* CHIR No. 13, questions 2-3. Consistent with historical practice,<sup>338</sup> the Commission will publish a separate analysis of the issues identified in the Postal Service's FY 2018 Annual Performance Report and FY 2019 Annual Performance Plan.

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<sup>337</sup> NPPC Comments at 2-3, 5 (citing Library Reference USPS–FY18–17, December 28, 2018, at 18).

<sup>338</sup> *See, e.g.*, Docket No. ACR2017, Analysis of the Postal Service's FY 2017 Annual Performance Report and FY 2018 Performance Plan, April 26, 2018.

## B. Customer Access

### 1. Introduction

The PAEA requires the Postal Service to report “measures of the quality of service afforded by the Postal Service in connection with [each Market Dominant] product, including...the degree of customer satisfaction with the service provided.”<sup>339</sup> 39 C.F.R. § 3055.91 requires the Postal Service to provide information pertaining to four aspects of customer access: post offices (including closings and emergency suspensions), residential and business delivery points, collection boxes, and wait time in line. Measuring customer access to postal services is important in evaluating universal service and customer satisfaction.

The FY 2018 ACR and Library Reference USPS–FY18–33<sup>340</sup> contain customer access information responsive to the requirements of Title 39 and the Commission’s regulations. The Postal Service provides additional information in responses to CHIRs.<sup>341</sup>

The Postal Service also reports the numbers of retail facilities and delivery points in its *Annual Report to Congress*.<sup>342</sup> In the FY 2017 ACD, the Commission observed that these numbers differ from those reported in the ACR and in CHIR responses. FY 2017 ACD at 162. It stated that these discrepancies impede the Commission’s evaluation of customer access and require the issuance of CHIRs to obtain the most up-to-date information. *Id.* The Commission directed the Postal Service to “ensure that information provided on retail facilities and delivery points is consistent among the [FY 2018 Annual Report], FY 2018 ACR, and past CHIR responses.” *Id.* If there were any discrepancies, the Commission directed the Postal Service to identify them in the FY 2018 ACR. *Id.*

In the FY 2018 ACR, the Postal Service identifies differences between the number of non-postal-managed retail facilities<sup>343</sup> reported in the *FY 2018 Annual Report* and USPS–FY18–33.<sup>344</sup> The Postal Service asserts that the numbers reported in the *Annual Report to Congress* and in the ACR are the most current, up-to-date totals at the time of each respective filing. *Id.* It explains that discrepancies in retail facilities data are due to the reporting practices of the different databases used to maintain data on non-postal-managed retail facilities.<sup>345</sup> The Postal Service asserts that the total number of CPUs, VPOs,

<sup>339</sup> 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90.

<sup>340</sup> Library Reference USPS–FY18–33, December 28, 2018.

<sup>341</sup> See January 11 Responses to CHIR No. 1, questions 6–12; January 28 Responses to CHIR No. 3, question 9; Responses to CHIR No. 9, question 1; Responses to CHIR No. 24.

<sup>342</sup> See *United States Postal Service FY 2018 Annual Report to Congress* at 11; see Library Reference USPS–FY18–17, December 28, 2018 (*FY 2018 Annual Report*).

<sup>343</sup> Non-postal-managed retail facilities include Contract Postal Units (CPUs), Village Post Offices (VPOs), and Community Post Offices (CPOs).

<sup>344</sup> FY 2018 ACR at 61. The Postal Service does not identify the differences between the number of delivery points reported between the *FY 2018 Annual Report* and USPS–FY18–33. See n.352, *infra*.

<sup>345</sup> *Id.*; see Responses to CHIR No. 9, question 1.

and CPOs periodically change throughout the year and after the Postal Service has reported these totals in the *Annual Report to Congress* and ACR. FY 2018 ACR at 61.

The Public Representative comments that she appreciates the Postal Service's explanation that changes can occur after data has already been reported. PR Comments at 16-17. However, she notes that the Postal Service continues to provide inconsistent data about the number of postal facilities. *Id.* at 17. She urges the Commission to require the Postal Service to resolve these continued discrepancies. *Id.* In its reply comments, the Postal Service explains that it uses a facilities database that allows for updates beyond the end of the fiscal year. Postal Service Reply Comments at 27. It asserts that these updates allow for more accuracy in tracking the status of non-postal-managed retail facilities, but may result in changed numbers over time as new updates are inputted into the database.

Continuously updating the databases explains why the information on non-postal-managed retail facilities changes throughout the year. The Commission appreciates that the Postal Service seeks to provide the most recent, up-to-date information. However, as discussed below, this information differs from the information provided in the ACR and CHIR responses. Without further explanation, these discrepancies reduce transparency, impede the Commission's evaluation of customer access, and require the issuance of CHIRs for clarification.

*The Commission reiterates that for its FY 2019 filings, the Postal Service must ensure that information provided for both retail facilities and delivery points is consistent among the Annual Report to Congress, ACR, and CHIR responses. If there are any discrepancies, the Postal Service must identify and reconcile them in the FY 2019 ACR.*

## 2. Retail Facilities

For each fiscal year, the Postal Service must provide information on the number of retail facilities at the beginning and end of the fiscal year, as well the number of retail facility closings during the fiscal year. 39 C.F.R. § 3055.91(a)(1) to (3). This information must be disaggregated by type of retail facility and provided at the national and area levels. *Id.* The Postal Service provides this information for FY 2018 in the *FY 2018 Annual Report*, USPS–FY18–33, and CHIR responses.<sup>346</sup> However, as previously discussed, the number of retail facilities differs among these sources.<sup>347</sup>

CHIR No. 9 asked for the most up-to-date number of retail facilities for FY 2016, FY 2017, and FY 2018, which the Postal Service provided. Responses to CHIR No. 9, question 1. The Postal Service clarifies that this information reflects available data as of February 6, 2019. *Id.* This information is included in Table V-27 below. Postal-managed retail facilities consist

<sup>346</sup> *FY 2018 Annual Report* at 11; USPS–FY18–33, Excel file “PostOfficesFY2018.xlsx,” tab “Post Offices;” Responses to CHIR No. 9, question 1.

<sup>347</sup> *Compare FY 2018 Annual Report* at 11 with USPS–FY17–33, Excel file “PostOfficesFY2018.xlsx,” tab “Post Offices” and Responses to CHIR No. 9, question 1.



of post offices, stations and branches, and carrier annexes. Non-postal-managed retail facilities consist of CPUs, VPOs, and CPOs.

**Table V-27**  
**Retail Facilities, FY 2016–FY 2018**  
**(as of February 6, 2019)**

| Facility Type                                      | FY 2016       | FY 2017       | FY 2018       | FY 2018<br>Change<br>from FY<br>2017 | FY 2018<br>Change<br>from FY<br>2016 |
|--|---------------|---------------|---------------|--------------------------------------|--------------------------------------|
| Post Offices                                       | 26,611        | 26,410        | 26,365        | -45                                  | -246                                 |
| Classified Stations & Branches and Carrier Annexes | 4,974         | 4,967         | 4,959         | -8                                   | -15                                  |
| <b>Total Postal-Managed Retail Facilities</b>      | <b>31,585</b> | <b>31,377</b> | <b>31,324</b> | <b>-53</b>                           | <b>-261</b>                          |
| Contract Postal Units                              | 2,387         | 2,245         | 2,142         | -103                                 | -245                                 |
| Village Post Offices                               | 854           | 717           | 629           | -88                                  | -225                                 |
| Community Post Offices                             | 490           | 466           | 452           | -14                                  | -38                                  |
| <b>Total Non-Postal-Managed Retail Facilities</b>  | <b>3,731</b>  | <b>3,428</b>  | <b>3,223</b>  | <b>-205</b>                          | <b>-508</b>                          |
| <b>Total Retail Facilities</b>                     | <b>35,316</b> | <b>34,805</b> | <b>34,547</b> | <b>-258</b>                          | <b>-769</b>                          |

Source: Responses to CHIR No. 9, question 1.

The total number of retail facilities in FY 2018 was 34,547, which was 258 fewer than FY 2017. The number of retail facilities for all types decreased between FY 2017 and FY 2018, a continued trend. The largest decrease between FY 2017 and FY 2018 was in the number of CPUs, which decreased by 103.

The Public Representative observes that the largest decreases in retail facilities occurred with non-postal-managed retail facilities. PR Comments at 16. She observes that FY 2018 is the third consecutive year that retail facilities decreased overall. *Id.* She questions the effect that large decreases in non-postal-managed facilities has had on customer access and whether the Postal Service is concerned about such decreases. *Id.*

In its reply comments, the Postal Service recognizes that customer access to its products and service in all forms, including retail facilities, is important for ensuring that mail remains a vital, economical means of communication. Postal Service Reply Comments at 23-24. It acknowledges that the number of VPOs and CPUs have decreased in recent years. *Id.* at 26-27. However, it states that it continues to develop and promote the use of alternative access channels such as usps.com, Self Service Kiosks (SSKs), Click-N-Ship, and PC Postage. *Id.* at 27.

As discussed below, in addition to providing products and services at retail facilities, the Postal Service continues to expand customer access through alternate channels. *See* Chapter 5, section B.7., *infra*. The Postal Service reports that it deployed 1,561 Retail Systems Software (RSS)-SSKs at the end of FY 2018 and has deployed an additional 1,171

RSS-SSKs in FY 2019. January 11 Responses to CHIR No. 1, question 6. It notes that 13 RSS-SSKs are reserved for future sites. *Id.*

### 3. Post Office Suspensions

*Background.* For each fiscal year, the Postal Service must provide information on the number of post office suspensions at the beginning and end of the fiscal year, as well as the number of post offices suspended during the fiscal year. 39 C.F.R. § 3055.91(a)(4) to (6). Since the FY 2015 ACD, the Commission has expressed concerns about the number of suspended post offices. *See* FY 2015 ACD at 150. At the end of FY 2016, there were 662 suspended post offices. FY 2017 ACD at 164. Of these 662 suspended post offices, 319 remained suspended at the end of FY 2017. FY 2017 ACR at 63. In FY 2017, the Postal Service also suspended 59 other post offices, for a total of 378 post offices suspended at the end of FY 2017. *Id.* at 65.

In the FY 2017 ACR, the Postal Service provided an updated timeline for resolving these 378 suspended post offices in FY 2018 and FY 2019.

- FY 2018, Quarter 1: 16
- FY 2018, Quarter 2: 23
- FY 2018, Quarter 3: 60
- FY 2018, Quarter 4: 70
- FY 2019, Quarter 1: 70
- FY 2019, Quarter 2: 70
- FY 2019, Quarter 3: 69<sup>348</sup>

In the FY 2017 ACD, the Commission reiterated the importance of resolving the remaining suspended post offices as soon as possible. FY 2017 ACD at 166. It stated that it expects the Postal Service to resolve all remaining suspended post offices by the end of FY 2019 as proposed in the FY 2017 ACR. *Id.* It directed the Postal Service to continue filing quarterly updates on the number of suspended post offices and actions taken to resolve them within 40 days after the end of each quarter in FY 2018. *Id.* The Commission stated that if the Postal Service is unable to meet the timeline it provided for resolving suspended post offices, it must explain in detail in the FY 2018 ACR why it was unable to do so. *Id.*

In FY 2018, the Postal Service filed quarterly updates on the status of the 662 post offices that had been suspended at the end of FY 2016.<sup>349</sup> It resolved suspended post offices by

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<sup>348</sup> *Id.*

reopening or officially discontinuing them. *Id.* Table V-28 compares targets and results for the number of suspended post offices resolved by quarter during FY 2018.

**Table V-28**  
**Post Office Suspension Activity by FY 2018 Quarter**  
**For 662 Post Offices Suspended at the End of FY 2016**

| FY 2018 Quarter | Target No. of Suspensions Resolved | Actual No. of Suspensions Resolved | No. of Suspended Offices Remaining at End of Quarter |
|-----------------|------------------------------------|------------------------------------|--|
| Quarter 1       | 16                                 | 23                                 | 296  |
| Quarter 2       | 23                                 | 20                                 | 276  |
| Quarter 3       | 60                                 | 23                                 | 253  |
| Quarter 4       | 70                                 | 3                                  | 250 <sup>a</sup>                                     |
| <b>Total</b>    | <b>169</b>                         | <b>69</b>                          |  |

<sup>a</sup> Of the 662 post offices suspended at the end of FY 2016, 250 of them remain suspended at the end of FY 2018. This number does not include 94 other post offices suspended in FY 2017 and FY 2018. January 28 Responses to CHIR No. 3, question 9.a.

Sources: Docket No. ACR2017, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update, April 6, 2018; Docket No. ACR2017, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY18 Quarter 2, May 10, 2018; Docket No. ACR2017, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY18 Quarter 3, August 9, 2018; see Docket No. ACR2017, Notice of the United States Postal Service of Filing Errata Concerning Filing of Post Office Suspension Information Update for FY18 Quarter 3; Docket No. ACR2017, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY18 Quarter 4, November 9, 2018.

Table V-28 shows that during Quarters 1 and 2 of FY 2018, the Postal Service resolved suspended post offices consistent with the timeline provided. During Quarters 3 and 4 of FY 2018, the Postal Service resolved far fewer suspended post offices than planned. In total, as of the end of FY 2018, the Postal Service resolved only 69 suspended post offices, 100 fewer than the target of 169. Of the 662 post offices suspended at the end of FY 2016, 250 of them remain suspended at the end of FY 2018. FY 2018 ACR at 62.

In the FY 2018 ACR, the Postal Service states that it fell short of its goals to resolve the remaining suspended post offices as outlined in the FY 2017 ACR. *Id.* at 63. The Postal Service explains that headquarter and field personnel encountered several challenges that impacted the ability to resolve suspended post offices, including significant staff turnover and incomplete docket information from the field. *Id.* at 63-64. To overcome these challenges, the Postal Service asserts that it is making several changes in FY 2019, such as implementing the new Delivery & Retail Operations staffing restructuring and committing more personnel to focus on suspension and discontinuance efforts. *Id.* at 64. To address the issue of incomplete docket information from the field, the Postal Service states it will provide field personnel further training and enhance ongoing tracking/status reporting of suspended post offices. *Id.* at 65. Based on these changes, the Postal Service proposes a

<sup>349</sup> See Table V-28, *infra*. The Postal Service also filed a post office suspension update for FY 2019, Quarter 1. Docket No. ACR2017, Notice of the United States Postal Service Regarding Filing of Post Office Suspension Information Update for FY19 Quarter 1, February 7, 2019 (FY 2019, Quarter 1 Suspension Report).

revised schedule for resolving the 250 suspended post offices remaining from the original 662 post offices suspended at the end of FY 2016.

**Table V-29**  
**Revised Schedule for Resolving Remaining Post Offices**  
**Suspended at the End of FY 2016<sup>a</sup>**

| Fiscal Quarter     | Target No. of Suspended Post Offices Resolved | Target No. of Suspended Post Offices Remaining |
|--------------------|---|--|
| FY 2019, Quarter 1 | 0 <sup>a</sup>                                | 250  |
| FY 2019, Quarter 2 | 10  | 240  |
| FY 2019, Quarter 3 | 40  | 200  |
| FY 2019, Quarter 4 | 100   | 100  |
| FY 2020, Quarter 1 | 25  | 75   |
| FY 2020, Quarter 2 | 75  | 0  |

<sup>a</sup> The timeline provided in the FY 2018 ACR assumes that no post offices were resolved during FY 2019, Quarter 1. See FY 2018 ACR at 65. However, the post office suspension update for FY 2019, Quarter 1 reports that three suspended post offices were reopened. FY 2019, Quarter 1 Suspension Report at 2, 4.

Source: FY 2018 ACR at 65; FY 2019, Quarter 1 Suspension Report.

The Postal Service explains that the quarterly post office suspension updates and the revised schedule for resolving suspended post offices in the FY 2018 ACR report the status of the 662 post offices that were suspended as of the end of FY 2016.<sup>350</sup> Of these 662 suspended post offices, 250 remain to be resolved by discontinuing or reopening them. *Id.* The Postal Service also filed data on the total number of suspended post offices in USPS–FY18–33.<sup>351</sup> The Postal Service explains that the numbers reported in USPS–FY18–33 include 94 other post offices suspended in FY 2017 and FY 2018 (in addition to the 662 post offices suspended at the end of FY 2016). January 28 Responses to CHIR No. 3, question 9.b. The Postal Service asserts that it will review the status of all suspended offices and provide an updated plan for resolving all remaining suspended post offices, including the 94 more recently suspended post offices, as part of the FY 2019, Quarter 4 post office suspension report. *Id.* question 3.b.

Table V-30 shows post office suspension activity during FY 2018 by facility type. It lists the number of suspended post offices at the beginning and end of FY 2018, as well as the number of post offices suspended, reopened, and closed during FY 2018. The number of suspended post offices at the end of FY 2018 is calculated by adding the number of post offices suspended during the fiscal year to the number of suspended post offices at the beginning of the fiscal year, and then subtracting the number of post offices reopened and closed during the fiscal year. Table V-30 shows that the total number of suspended post offices decreased by 34 in FY 2018.

<sup>350</sup> January 28 Responses to CHIR No. 3, question 9.a.

<sup>351</sup> USPS–FY18–33, Excel file “PostOfficesFY2018.xlsx,” tab “Suspension Summary.”

**Table V-30**  
**Post Office Suspension Activity During FY 2018**

|                          | Under Suspension at the Start of FY 2018 | Suspended During FY 2018 | Reopened During FY 2018 | Closed During FY 2018 | Under Suspension at the End of FY 2018 |
|--------------------------|--|--------------------------|-------------------------|-----------------------|--|
| <b>Post Offices</b>      | 314                                      | 68                       | 57                      | 50                    | 275                                    |
| <b>Stations/Branches</b> | 63                                       | 10                       | 3                       | 2                     | 68                                     |
| <b>Carrier Annexes</b>   | 1  | 0                        | 0                       | 0                     | 1                                      |
| <b>Total</b>             | <b>378</b>                               | <b>78</b>                | <b>60</b>               | <b>52</b>             | <b>344<sup>a</sup></b>                 |

<sup>a</sup>This number includes the remaining 250 suspended post offices from the original 662 post offices suspended at the end of FY 2016, as well as the additional 94 post offices suspended in FY 2017 and FY 2018.

Source: USPS–FY18–33, Excel file "PostOfficesFY2018.xlsx," tab "Suspension Summary;" Responses to CHIR No. 24, question 1.

*Comments.* The Public Representative comments that the Postal Service again showed marked improvement by reducing the number of suspended post offices in FY 2018. PR Comments at 18. She observes that since the beginning of FY 2017, the Postal Service reduced the total number of suspended post offices by approximately 43 percent. *Id.* at 17. She notes that the Postal Service did not meet FY 2018 targets for resolving suspended post offices, but asserts that the challenges described by the Postal Service in resolving the remaining suspended post offices appear reasonable. *Id.* at 18, 19.

*Commission analysis.* The Postal Service fell short of its goal of resolving 169 suspended post offices in FY 2018. Nonetheless, the Postal Service made significant progress in reducing the backlog of post offices suspended at the end of FY 2016. Of those 662 suspended post offices, only 250 remain suspended at the end of FY 2018.

*For these reasons, the Commission finds that the Postal Service made progress in reducing the backlog of suspended post offices between FY 2016 and FY 2018. The Commission also finds that the Postal Service complied with the Commission's directives in the FY 2017 ACD to file quarterly updates on the status of the 662 post offices suspended at the end of FY 2016 and actions taken to resolve them. The Postal Service also explained in the FY 2018 ACR why it was unable to meet the timeline for resolving suspended post offices in FY 2018. See FY 2017 ACD at 166. The Postal Service's descriptions of the challenges encountered are reasonable, and the proposed solutions should help the Postal Service meet the revised schedule for resolving the remaining suspended post offices.*

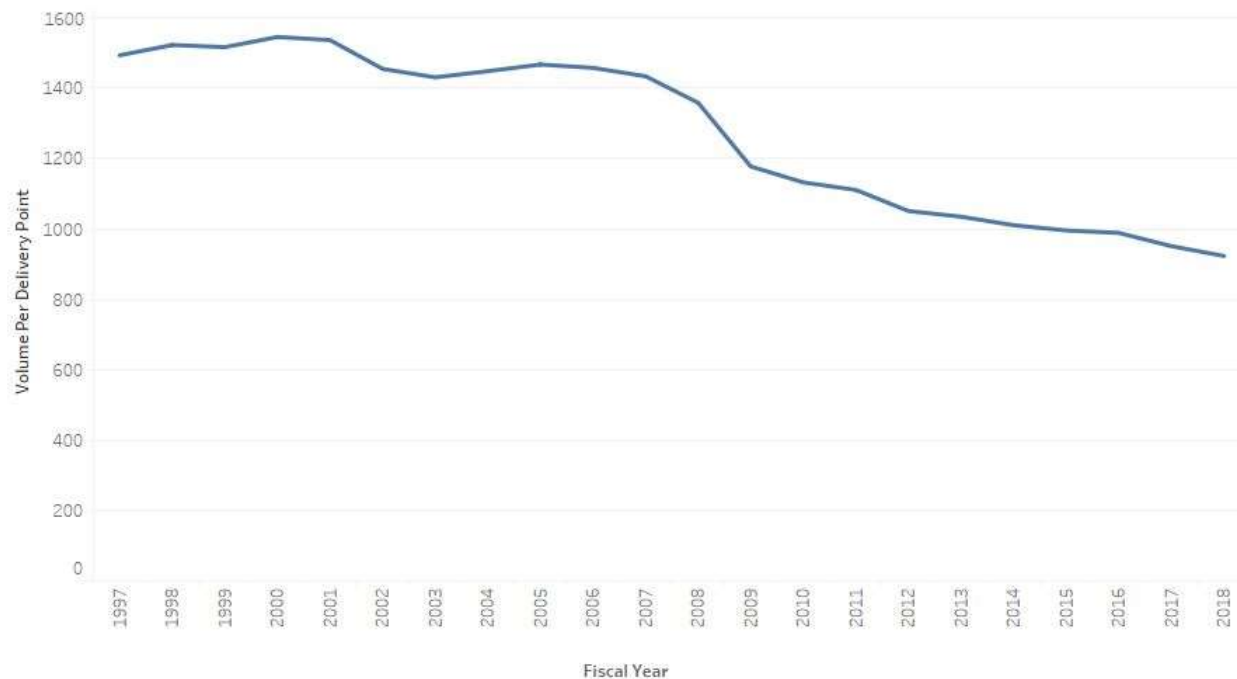
*The Commission reiterates the importance of resolving all remaining suspended post offices as soon as possible. The Commission expects the Postal Service to resolve all remaining suspended post offices by the end of FY 2020, including the 94 additional post offices suspended in FY 2017 and FY 2018, by either reopening them or closing them in compliance with the post office discontinuance process. The Commission directs the Postal Service to continue to file quarterly updates on the status of the 662 post offices suspended at the end of*

*FY 2016 and actions taken to resolve them. The Postal Service must file this information within 40 days after the end of each quarter in FY 2019. The report for FY 2019, Quarter 4 must provide an updated plan for resolving all remaining suspended post offices, including post offices suspended in FY 2017, FY 2018, and FY 2019. If the Postal Service is unable to meet the timeline it provided for resolving the remaining suspended post offices, the Postal Service must explain in detail in the FY 2019 ACR why it was unable to do so.*

#### 4. Delivery Points

The Postal Service is required to provide information on the number of residential and business delivery points at the beginning and end of the fiscal year. 39 C.F.R. § 3055.91(b). The Postal Service provided this information for FY 2018 in USPS–FY18–33 and in the *FY 2018 Annual Report*.<sup>352</sup> The total number of delivery points in FY 2018 was 158,558,256, an increase of 1,229,580 from FY 2017. *FY 2018 Annual Report* at 9. Figure V-9 shows the volume per delivery point between FY 1997 and FY 2018.

**Figure V-9**  
**Volume per Delivery Point, FY 1997–FY 2018**



Source: Commission Calculation Based on United States Postal Service, Delivery Points Since 1905, in Millions, February 2019 (available at: <http://about.usps.com/who-we-are/postal-history/delivery-points-since-1905.pdf>) and United States Postal Service, Pieces of Mail Handled, Number of Post Offices, Income, and Expenses Since 1789, February 2019 (available at: <http://about.usps.com/who-we-are/postal-history/pieces-of-mail-since-1789.pdf>).

<sup>352</sup> USPS–FY18–33, Excel file “DeliveryPointsFY2018.xlsx;” *FY 2018 Annual Report to Congress* at 9. The number of delivery points differs between these two sources. See Chapter 5, section B.1., *supra*. The Commission cites to data from the *FY 2018 Annual Report*.

Volume per delivery point reached its highest level of 1,546 in FY 2000. Volume per delivery point decreased an average of 1 percent per year from FY 2000 to FY 2007, when it was 1,434. Volume per delivery point declined to 923 in FY 2018, a 40 percent decrease since FY 2000 and a 36 percent decrease from FY 2007.

## 5. Collection Boxes

The Postal Service must provide, at the national and area levels, information on the number of collection boxes at the beginning and end of the fiscal year, as well as the number of collection boxes added and removed during the fiscal year. 39 C.F.R. § 3055.91(c). The Postal Service filed this data for FY 2018 in USPS–FY18–33.<sup>353</sup> Nationally, there were 143,977 collection boxes at the end of FY 2018, 2,275 fewer than in FY 2017.

*Comments.* The Public Representative comments that the number of collection boxes decreased by 1.54 percent in FY 2018 compared to a decrease of 4.12 percent in FY 2017. PR Comments at 19. She asserts that her past concerns about collection box totals are mitigated by the Postal Service’s continued density testing of collection boxes, the decline in collection box reductions in FY 2018, and the Commission’s awareness of this issue. *Id.* at 19-20.

The Greeting Card Association (GCA) asks the Commission to consider whether the Postal Service’s management of collection boxes complies with 39 U.S.C. § 403(b)(3).<sup>354</sup> It critiques operational rules for removing or relocating collection boxes and discusses several concerns raised by Postal Service Office of Inspector General (OIG) reports. GCA Comments at 2-4. GCA asks that the Commission direct the Postal Service to describe how collection boxes are managed and removed, how the Postal Service plans to improve customer access to collection boxes, how it will address issues identified by the OIG, and how it considers customer concerns in this area. *Id.* at 4-5.

In its reply comments, the Postal Service responds that rules for removing or relocating collection boxes are discussed in the Postal Operations Manual, which states that collection boxes averaging fewer than 25 pieces of mail per day should be removed or relocated. Postal Service Reply Comments at 24. It asserts that efficiency suffers in the form of fuel and workhours for carriers to service collection boxes that receive very small amounts of mail. *Id.* The Postal Service notes that it has placed greater emphasis on stabilizing the number of collection boxes in use and relocating low-use boxes to high traffic areas. *Id.* at 25. It states that routine density tests are conducted at least annually to determine if a collection box is being used effectively. *Id.*

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<sup>353</sup> USPS–FY18–33, Excel file “CollectionBoxesFY2018.xlsx.”

<sup>354</sup> Comments of the Greeting Card Association, February 14, 2019, at 1-2 (GCA Comments). 39 U.S.C. § 403(b)(3) requires the Postal Service “to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.”

The Postal Service explains that it has addressed the OIG's concerns by upgrading and enhancing the Collection Point Management System, which manages collection boxes. *Id.* at 25-26. It states that this system now tracks collection points from creation to deletion, which has brought full accountability and visibility to vital collection box management processes. *Id.* at 26. The Postal Service also describes a national standard operating procedure for collection boxes that requires area and district personnel to periodically review collection points listed as out of service and take appropriate action. *Id.*

*Commission analysis.* The Commission finds that the Postal Service has adequately addressed GCA's concerns in its reply comments. The Postal Service should continue to perform annual density testing of collection boxes in FY 2019 to ensure that the collection box network is cost-effective while meeting the needs of its customers. The Commission will continue to monitor the number of collection boxes in the FY 2019 ACD.

## 6. Wait Time in Line

The Postal Service must report the average customer wait time for retail service for the beginning of the fiscal year and for the end of each successive fiscal quarter at the national and area levels. 39 C.F.R. § 3055.91(d). The Postal Service provided this information for FY 2018 in USPS-FY18-33.<sup>355</sup> The national average wait time in line improved from 2 minutes 28 seconds in FY 2017 to 2 minutes 11 seconds in FY 2018. FY 2018 ACR at 60. Table V-31 shows the quarterly national average customer wait times in line for FYs 2014 through 2018.

**Table V-31**  
**National Average Wait Times in Line**  
**By Quarter, FY 2014–FY 2018**

|                  | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|------------------|---------|---------|---------|---------|---------|
| <b>Quarter 1</b> | 2:23    | 2:33    | 3:12    | 2:30    | 2:18    |
| <b>Quarter 2</b> | 2:35    | 2:43    | 3:26    | 2:39    | 2:28    |
| <b>Quarter 3</b> | 2:29    | 2:40    | 2:45    | 2:34    | 2:04    |
| <b>Quarter 4</b> | 2:24    | 2:36    | 2:17    | 2:28    | 1:53    |

Source: USPS-FY18-33, Excel file "National WaitTimeInLine FY2018.xlsx," tab "Qtr Avg Wait Natl;" FY 2017 ACD at 168.

*Comments.* The Public Representative comments that the Postal Service reduced wait times in line for all postal areas in FY 2017. PR Comments at 20. She notes that in FY 2018, the Postal Service continued to improve wait times in line in all areas except for the Capital Metro area, which increased slightly from 2 minutes 13 seconds in FY 2017 to 2 minutes 17 seconds in FY 2018. *Id.* at 20-21. She observes that in FY 2018, the average national wait time in line of 2 minutes 11 seconds decreased by 17 seconds and was the shortest wait

<sup>355</sup> USPS-FY18-33, Excel file "National WaitTimeInLine FY2018.xlsx."



time in line since FY 2012. *Id.* at 21. She asserts that wait times in line appear reasonable in light of these widespread improvements. *Id.* She considers wait time in line to be an important component of customer access and satisfaction and commends the Postal Service for its continued improvement in this area. *Id.* In its reply comments, the Postal Service states that it plans on continuing to improve wait times in line in FY 2019. Postal Service Reply Comments at 23.

*Commission analysis.* The Commission commends the Postal Service for continuing to improve customer wait times in line in FY 2018. National average wait times in line improved for each quarter. FY 2018, Quarter 4 showed a marked improvement from 2 minutes 28 seconds in FY 2017 to 1 minute 53 seconds in FY 2018. The Commission encourages the Postal Service to continue improving wait times in line in FY 2019.

## 7. Alternative Access

In addition to providing products and services at retail facilities, the Postal Service continues to expand customer access through alternate channels. The Commission previously recommended that the Postal Service continue to expand alternative retail access channels to ensure customers have ready access to essential postal services.<sup>356</sup> The Postal Service provides information on retail revenue by channel from FY 2015 through FY 2018 in a CHIR response.<sup>357</sup> The major retail revenue channels are:

- Post Offices
- CPUs
- Click-N-Ship
- Stamp Sales by Partners
- SSKs/Automated Postal Centers
- Stamps by Mail/Phone/Fax

Figure V-10 compares retail revenue by channel from FY 2015 through FY 2018. Figure V-10 groups these retail revenue channels into three groups:

- Post Offices (walk-in revenue (WIR) from post offices and contract postal units)
- Internet Access (Click-N-Ship)<sup>358</sup>
- All Other (including stamp sales by partners, SSKs/automated postal centers, and stamps by mail/phone/fax)

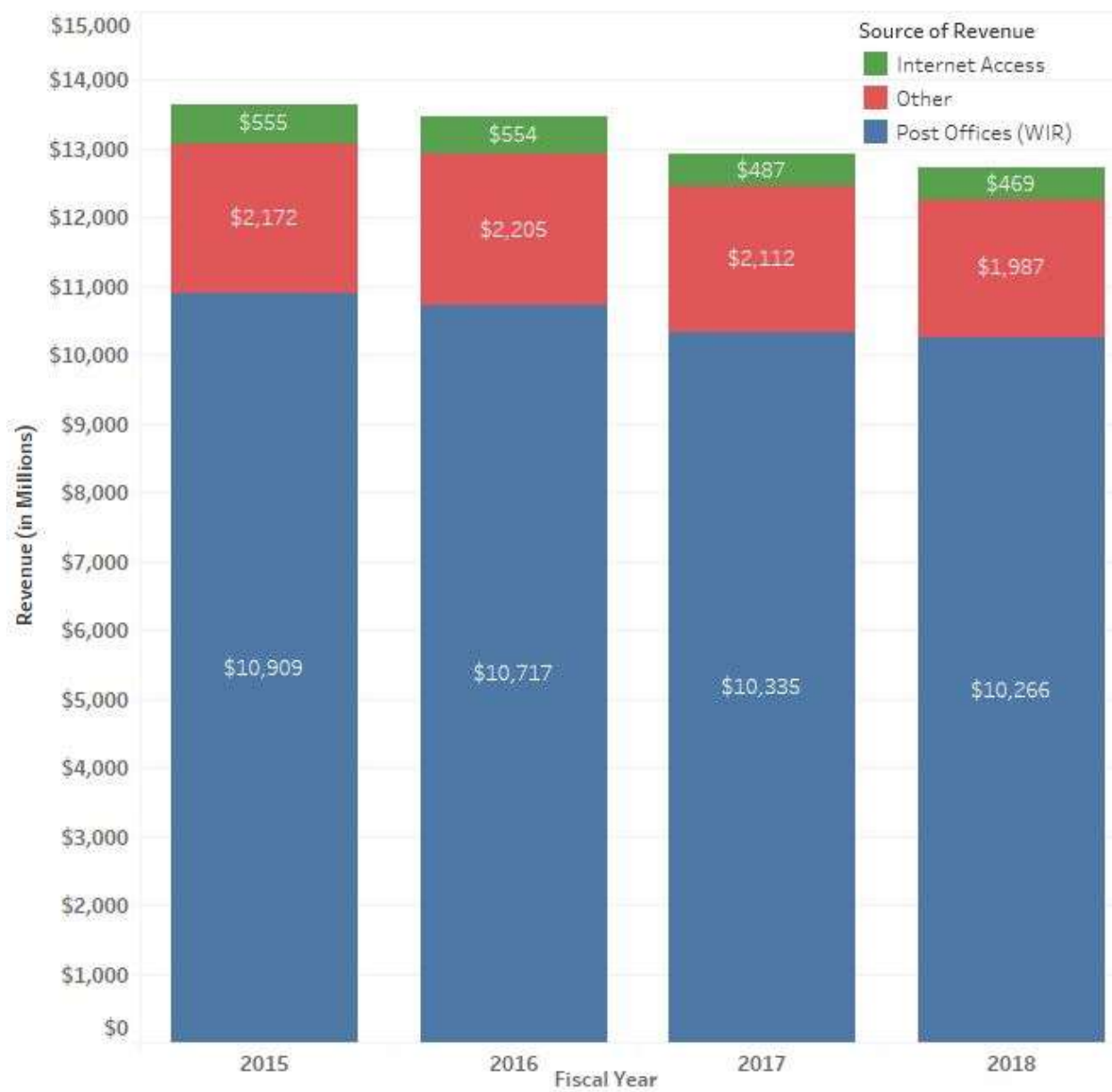
<sup>356</sup> Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 37.

<sup>357</sup> January 11 Responses to CHIR No. 1, question 7.

<sup>358</sup> In FY 2015, retail revenue from Internet Access included revenue from the PC Postage. Docket No. ACR2017, Response of the United States Postal Service to Question 3 Chairman's Information Request No. 17, February 20, 2018, question 3.a. In FY 2016, the Postal Service reclassified PC Postage revenue from retail to commercial. FY 2016 ACD at 154. For this reason, Internet Access retail revenue does not include PC Postage in FY 2016, FY 2017, and FY 2018.



**Figure V-10**  
**Retail Revenue by Channel, FY 2015–FY 2018**



## C. Customer Satisfaction with Market Dominant Products

### 1. Background

The PAEA requires the Postal Service to report measures of the degree of customer satisfaction with the service provided for each Market Dominant product. 39 U.S.C. § 3652(a)(2)(B)(ii); 39 C.F.R. § 3055.90. The Postal Service measures customer satisfaction with Market Dominant products and other customer experiences using surveys. The ACR must include a copy of each type of customer survey and information obtained from each survey. 39 C.F.R. § 3055.92. This information must include a description of the type of customer targeted by the survey, the number of surveys initiated and received, and the number of responses received for each question, disaggregated by each possible response. *Id.* The Postal Service provides this information in USPS–FY18–38.<sup>359</sup>

In FY 2018, the Postal Service measured customer experiences using eight surveys: Business Service Network, Point of Sale, Delivery, Customer Care Center, Enterprise Customer Care, Large Business, Bulk Mail Entry Unit, and USPS.com.<sup>360</sup> Each survey measures a customer touchpoint or interaction between the customer and the Postal Service.<sup>361</sup> For example, the Point of Sale survey measures customer experiences at retail locations with Point of Sale equipment. Preface at 3. The Postal Service explains that to enhance its understanding of customer satisfaction and improve results, it significantly revamped its processes for measuring customer experiences. FY 2018 ACR at 48. These changes included revising customer surveys and methodologies for calculating results. *Id.* at 49-57. The customer surveys, methodology changes, and FY 2018 results for each survey are discussed in detail in the Commission’s forthcoming *Analysis of the FY 2018 Annual Performance Report and FY 2019 Annual Performance Plan*.

The Postal Service uses data from the Delivery and Large Business surveys to measure customer satisfaction with Market Dominant products for three types of customers: residential, small/medium business, and large business. FY 2018 ACR at 52. The Delivery survey measures customer satisfaction of residential and small/medium business customers.<sup>362</sup> In FY 2018, residential and small/medium business customers were randomly selected, contacted by mail, and given the option of completing the survey by phone or online. FY 2018 ACR at 52. The Large Business survey measures customer satisfaction of large business customers with 250 or more employees.<sup>363</sup> A panel of large

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<sup>359</sup> Library Reference USPS–FY18–38, December 28, 2018.

<sup>360</sup> USPS–FY18–38, PDF file “USPS-FY18-38 Preface.pdf,” at 1 (Preface).

<sup>361</sup> Responses to CHIR No. 2, question 6.a.

<sup>362</sup> Preface at 3; USPS–FY18–38, PDF file “CI\_Surveys\_FY2018.pdf,” at 26-37.

<sup>363</sup> FY 2018 ACR at 52; USPS–FY18–38, PDF file “CI\_Surveys\_FY2018.pdf,” at 46-61.

business customers completed the survey during each quarter of FY 2018. FY 2018 ACR at 52.

In the surveys, residential, small/medium, and large business customers were asked to rate their level of satisfaction with a Market Dominant mailing service, such as First-Class Mail or Media Mail. *Id.* Customers rated their level of satisfaction with each mailing service using a six-point scale ranging from Very Satisfied to Very Dissatisfied. *Id.* Customer satisfaction results were calculated as the percentage of customers who selected Very Satisfied or Mostly Satisfied. *See id.* at 49. Customers who indicated that they do not use or are unfamiliar with a mailing service were excluded from the results. *Id.* at 52-53. For each customer type, Table V-32 compares customer satisfaction results for select Market Dominant mailing services for FY 2016, FY 2017, and FY 2018.

**Table V-32**  
**Comparison of Customer Satisfaction with Market Dominant Products, by Percentage**  
**FY 2016–FY 2018**

| Market Dominant Products<br>(Mailing Services) | Residential Customers |                 |                 | Small/Medium Business Customers |            |                 | Large Business Customers |            |                 |
|--|-----------------------|-----------------|-----------------|---------------------------------|------------|-----------------|--------------------------|------------|-----------------|
|  | FY<br>2016            | FY<br>2017      | FY<br>2018      | FY<br>2016                      | FY<br>2017 | FY<br>2018      | FY<br>2016               | FY<br>2017 | FY<br>2018      |
| <b>First-Class Mail</b>                        | 89.13%                | 89.05%          | 87.04%          | 83.34%                          | 84.38%     | 83.88%          | 81.49%                   | 77.97%     | 72.48%          |
| <b>Single-Piece International</b>              | 84.80%                | 85.18%          | 81.95%          | 81.34%                          | 82.69%     | 80.67%          | 74.37%                   | 69.98%     | 66.40%          |
| <b>USPS Marketing Mail</b>                     | 85.49%                | 83.18%          | 76.90%          | 79.87%                          | 80.32%     | 77.67%          | 76.89%                   | 71.69%     | 64.50%          |
| <b>Periodicals</b>                             | 85.07%                | 85.66%          | 83.88%          | 81.86%                          | 82.32%     | 81.96%          | 74.26%                   | 70.56%     | 65.84%          |
| <b>Media Mail</b>                              | 86.59%                | 86.04%          | 83.21%          | 84.05%                          | 85.10%     | 83.31%          | 74.28%                   | 69.15%     | 64.87%          |
| <b>BPM</b>                                     | -- <sup>a</sup>       | -- <sup>a</sup> | -- <sup>b</sup> | 80.11%                          | 82.77%     | -- <sup>b</sup> | 73.40%                   | 67.70%     | -- <sup>b</sup> |
| <b>Library Mail</b>                            | 85.54%                | 87.28%          | 81.24%          | 83.05%                          | 85.98%     | 82.89%          | 70.56%                   | 66.41%     | 61.89%          |

Results are expressed as the percentage of customers who were Very Satisfied or Mostly Satisfied with a category.

<sup>a</sup>—Number of responses received did not meet minimum threshold for 90-percent level of confidence.

<sup>b</sup>—FY 2018 data for BPM is unavailable.

Source: FY 2018 ACR at 57; FY 2017 ACR at 58; FY 2016 ACR at 74.

The Postal Service reports that although most customers continue to report being very or mostly satisfied with the Postal Service's mailing services, there were minor declines in customer satisfaction results for residential and small/medium business customers between FY 2017 and FY 2018. FY 2018 ACR at 57. For large business customers, customer satisfaction declined approximately 5 percent across all Market Dominant products. *Id.* at 58.

In FY 2018, the Postal Service analyzed the Large Business survey to identify three drivers that influence large business customer satisfaction: building customer relationships, the ease of contacting a representative, and issue/claim resolution. *Id.* at 58-59. In FY 2018, the

Postal Service states that it developed several initiatives focused on these drivers, such as streamlining the claims process for large business customers. *Id.* at 59. It acknowledges that it must perform further research to understand how large business customer experiences with each product type drives overall satisfaction. *Id.* The Postal Service states that it will continue its efforts to improve customer satisfaction in FY 2019. *Id.* These efforts include reducing customer wait times at Customer Care Centers, developing refresher training for retail employees, improving mail delivery accuracy, continuing efforts to improve Business Mail Entry Units, and improving customer experiences with receiving mail and packages. *Id.*

## 2. Comments

The Public Representative comments that customer satisfaction with Market Dominant products declined on average for each customer type by 6.84 percent (residential), 3.41 percent (small/medium business), and 4.74 percent (large business). PR Comments at 25-26. She observes that the Postal Service was unable to continue the improvements in customer satisfaction for residential and small/medium business customers that were made in FY 2017 and was also unable to reverse the trend of declining customer satisfaction for large business customers. *Id.* at 27. She recommends that the Commission monitor customer satisfaction closely in FY 2019.<sup>364</sup>

NPPC expresses specific concerns about large business customer satisfaction. NPPC Comments at 5. It notes that large business customer satisfaction declined by 5 percent across all Market Dominant products in FY 2018 and that only 64.5 percent of large business customers were satisfied with USPS Marketing Mail. *Id.* at 5-6. NPPC asserts that large business customers experience lower customer satisfaction compared to residential and small/medium customers because large business customers work most closely with the Postal Service and are most affected by changes in mailing regulations and other requirements. *Id.* at 7. NPPC urges the Postal Service to work to improve customer relations in FY 2019 and beyond. *Id.* at 9. NPPC asserts that the *FY 2018 Annual Report* indicates that the Postal Service will eliminate the Large Business survey in FY 2019. *Id.* at 9-10.

NAPM and Idealliance comment that the Postal Service has not identified factors impacting overall customer satisfaction and product satisfaction for large business customers. NAPM/Idealliance Comments at 7-8. It suggests that the Postal Service ask for service performance ratings separate from rating of product offerings in future surveys. *Id.* at 8.

In its reply comments, the Postal Service emphasizes its commitment to listening to customers and providing them with the highest levels of service and satisfaction across all mail classes. Postal Service Reply Comments at 20. It clarifies that it will continue conducting the Large Business survey in FY 2019. *Id.* at 20-21. The Postal Service notes that

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<sup>364</sup> *Id.* The Public Representative also discusses results of the customer surveys and methodology changes in FY 2018. *Id.* at 22-25. These issues are addressed in the Commission's forthcoming *Analysis of the FY 2018 Annual Performance Report and FY 2019 Annual Performance Plan*.

the FY 2018 ACR identifies drivers of overall customer satisfaction and tracks customer satisfaction by product type by asking questions about product satisfaction for each product used. *Id.* at 21. It points out tools in place that help gain insight into how major customers view their experience with the Postal Service, such as the Postal Customer Council and National Postal Forum. *Id.* at 21-22.

### 3. Commission Analysis

Between FY 2016 and FY 2017, customer satisfaction with Market Dominant products remained the same overall for residential and small/medium business customers, but declined for large business customers. FY 2017 ACD at 73. As Table V-32 shows, in FY 2018 customer satisfaction with Market Dominant products declined for each customer type.

In the FY 2017 ACD, the Commission directed the Postal Service to provide an analysis in the FY 2018 ACR explaining why large business customer satisfaction declined between FY 2015 and FY 2017. *Id.* The Commission also required the Postal Service to discuss the reasons for any further declines in customer satisfaction for residential, small/medium business, and large business customers in the FY 2018 ACR. *Id.* The Commission further directed that the Postal Service describe in the FY 2018 ACR actions taken to improve customer satisfaction and explain whether these actions were effective. *Id.*

The Postal Service provides this information in the FY 2018 ACR. FY 2018 ACR at 57-59. It states that for the Large Business survey, the number of survey respondents and the number of times the survey was conducted increased between FY 2015 and FY 2018. *Id.* It acknowledges that the larger sample size in FY 2018 makes the survey data set more representative of customer experiences. *Id.* As previously discussed, the Postal Service analyzed the Large Business survey to identify three drivers that influence large business customer satisfaction: building customer relationships, the ease of contacting a representative, and issue/claim resolution. *Id.* at 58-59. However, it states that this analysis did not thoroughly examine customer satisfaction by product type. *Id.* at 58. The Postal Service acknowledges that it must perform further research to understand how large business customer experiences with each product type is driving overall satisfaction. *Id.* at 59.

*Because customer satisfaction for residential, small/medium business, and large business customers declined in FY 2018, the Commission will continue to monitor customer satisfaction closely in FY 2019. The FY 2019 ACR must describe results of the Postal Service's research into how large business customer experiences drive overall satisfaction with Market Dominant mailing services. The Commission recommends that the Postal Service examine customer satisfaction by mailing service or product type and focus on improving areas related to key drivers of customer satisfaction.*

*The Postal Service should continue to take appropriate actions to improve customer satisfaction with Market Dominant products for each customer type (residential, small/medium business, and large business) as outlined in the FY 2018 ACR. In the FY 2019*

*ACR, the Postal Service must describe actions taken to improve customer satisfaction for each customer type in FY 2019 and explain whether these actions were effective.*



# CHAPTER 6: FLATS COST AND SERVICE ISSUES

## A. Introduction

The Postal Service faces a growing challenge in profitably processing and delivering flat-shaped mailpieces (flats). As discussed below, unit costs for flats have continued to rise, contribution losses have continued to grow, and flats products have still not met their service performance targets.

In the FY 2015 ACD, the Commission identified and analyzed six “pinch points” that contribute to cost and service issues for flats:

- Bundle processing
- Low productivity on automated equipment
- Manual sorting
- Productivity and service issues in allied operations
- Increased transportation time and cost
- Last mile/delivery

FY 2015 ACD at 165.

The Commission directed the Postal Service to identify a method to measure, track, and report the cost and service performance issues concerning flats. FY 2015 ACD at 181. In response, the Postal Service provided a discussion of data systems that could be used to measure certain issues relating to flats.<sup>365</sup> The Postal Service did not provide a specific method for each pinch point to measure, track, and report on cost and service performance issues related to flats. *Id.* Similarly, in response to the 2010 ACD Directive, the Postal Service has consistently been unable to estimate cost savings from any of its current or past operational initiatives. FY 2018 ACR at 26-27. In addition, the Postal Service is unable to provide a plan to address the declining operational performance of the FSS present on the FY 2018 FSS Scorecard.<sup>366</sup> Instead, the Postal Service states that it intends to create a “Headquarters Functional Review Team” to evaluate FSS operations in FY2019. January 28

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<sup>365</sup> See Docket No. ACR2015, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, Report Regarding Information about Flats Data Systems, July 26, 2016; Docket No. ACR2015, Response of the United States Postal Service to Commission Information Request No. 1, November 28, 2016.

<sup>366</sup> Response of the United States Postal Service to Question 16 of Chairman’s Information Request No. 1, January 28, 2019, question 16 (January 28 Response to CHIR No. 1).

Response to CHIR No. 1, question 16. The Postal Service is unable to provide any additional information regarding the Headquarters Functional Review Team, such as when it will be created, what the objective of the Headquarters Functional Review Team will be, if the Headquarters Functional Review Team will provide recommendations, or if the Postal Service will implement those recommendations. Responses to CHIR No. 11, question 1.

The Commission initiated a strategic rulemaking to explore potential data enhancements and develop reporting requirements related to flats operational cost and service issues, citing the compressed nature of ACD proceedings and the need for consistent review of the issues. *See* Docket No. RM2018-1. The Commission also invited interested parties to provide comments on the quality and reliability of the data systems and reports identified by the Postal Service, as well as identify opportunities to enhance the data systems and/or further areas of exploration related to the data systems.<sup>367</sup> The Commission proposed reporting requirements to increase transparency and accountability related to operational initiatives designed to address flats cost and service issues.<sup>368</sup> Following the discussion on each pinch point, the Commission summarizes the proposed reporting requirements relevant to that pinch point.

## B. FY 2018 Results

In FY 2018, the combined attributable costs of Outside County Periodicals and USPS Marketing Mail Flats exceeded the products' revenues by \$1.4 billion. *See* Chapter 3, *supra*, at 43-44, 48-49. Since FY 2008, the combined attributable costs of Periodicals and USPS Marketing Mail Flats exceeded their revenues by more than \$12.2 billion. *Id.* In response to the continuous increase in USPS Marketing Mail Flats costs and the decline of USPS Marketing Mail Flats contribution, the Commission has directed the Postal Service to increase USPS Marketing Mail Flats prices by at least 2 percentage points above the USPS Marketing Mail class average in the next Market Dominant price adjustment. *See* Chapter 3, *supra*, at 70-71.

As depicted in Table VI-1, despite the Commission's directive for the Postal Service to develop a plan to reduce the cost of flats, the unit cost of almost every flats product increased from FY 2015 to FY 2018. BPM Flats was the only flats product where unit costs declined.

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<sup>367</sup> Docket No. RM2018-1, Notice of Inquiry No. 1, August 17, 2018.

<sup>368</sup> *See* Order No. 5004.

**Table VI-1**  
**Flats Products' Unit Costs (cents), FY 2015–FY 2018**

| Product or Class  | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2015 to FY 2018 % Change |
|---|---------|---------|---------|---------|-----------------------------|
| First-Class Mail Flats  | 93.4    | 97.5    | 105.8   | 112.9   | 20.8%                       |
| USPS Marketing Mail High Density & Saturation Flats & Parcels | 10.5    | 10.8    | 11.2    | 12.1    | 15.4%                       |
| USPS Marketing Mail Carrier Route                             | 20.6    | 19.6    | 21.0    | 24.2    | 17.6%                       |
| USPS Marketing Mail Flats                                     | 50.1    | 47.1    | 52.0    | 59.0    | 17.7%                       |
| Periodicals   | 36.0    | 36.5    | 37.4    | 37.9    | 5.2%                        |
| Bound Printed Matter Flats                                    | 58.0    | 49.3    | 50.1    | 50.1    | -13.6%                      |

Source: PRC–LR–ACR2018/9.

In FY 2018, service performance declined for flats as discussed in detail in Chapter 5. *See* Chapter 5 at 124, *supra* and Table VI-2. Since inception of the current service performance measurement system, the Postal Service has only met a service performance target for a flats product once (USPS Marketing Mail Carrier Route in FY 2017).

**Table VI-2**  
**Flats Products' Service Performance Results, FY 2014–FY 2018**

| Product                           | Target (%) | % On-Time |         |         |         |         | FY 2018 Compared to Target |
|-----------------------------------|------------|-----------|---------|---------|---------|---------|----------------------------|
|                                   |            | FY 2014   | FY 2015 | FY 2016 | FY 2017 | FY 2018 |                            |
| First-Class Mail Flats            | 95.25      | 72.60     | 65.28   | 70.86   | 73.93   | 70.98   | -24.27                     |
| USPS Marketing Mail Carrier Route | 91.00      | 81.40     | 82.02   | 83.90   | 91.36   | 89.53   | -1.47                      |
| USPS Marketing Mail Flats         | 91.00      | 76.20     | 73.78   | 81.40   | 80.37   | 76.53   | -14.47                     |
| Periodicals Outside County        | 91.00      | 80.80     | 77.57   | 79.74   | 85.32   | 85.30   | -5.70                      |
| Bound Printed Matter Flats        | 90.00      | 60.20     | 45.20   | 53.56   | 56.67   | 55.23   | -34.77                     |

Source: PRC–LR–ACR2018/9.

## 1. Bundle Processing

In the FY 2015 ACD, the Commission found that data related to bundle breakage did not fully indicate the scope and scale of bundle breakage. FY 2015 ACD at 167. Since FY 2015, the Postal Service began improving its reporting on bundle breakage. The Postal Service notes that beginning in Quarter 2 of FY 2018, it “bolstered its bundle breakage tracking,” adding the ability to detect pieces from broken bundles on additional machines. FY 2018 ACR at 31. In addition, the Postal Service is utilizing the “Bundle Breakage Dashboard” to determine the root cause of bundle breakage. *Id.* at 32. Finally, the Postal Service discusses that it is reviewing “Bundle Leakage data” to gain insight into improper flows and manual handlings of bundles. *Id.*

The Postal Service provided the data in Table VI-3 on Bundle Breakage Performance from FY 2016 to FY 2018. These data show that the percent of broken bundles increased substantially in FY 2018. However, the Postal Service explains that, in FY 2018, it improved its ability to detect broken bundles, which influence these results. FY 2018 ACR at 30-31.

**Table VI-3**  
**Bundle Breakage**

| <b>FY</b> | <b>Total Bundles</b> | <b>Broken Bundles</b> | <b>% Broken</b> |
|-----------|----------------------|-----------------------|-----------------|
| 2016      | 497,658,730          | 12,960,619            | 2.60%           |
| 2017      | 492,575,354          | 13,882,003            | 2.82%           |
| 2018      | 460,468,758          | 22,081,833            | 4.80%           |

Source: Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 14, February 12, 2018, question 4; FY 2018 ACR at 31.

In Docket No. RM2018-1, the Commission has proposed that the Postal Service provide data on the cost and service impact of bundle processing on flat-shaped products, and Bundle Breakage Visibility Reports. Order No. 5004 at 12, 16-19. The Commission anticipates that Bundle Breakage Visibility Reports will provide additional insight into bundle processing by providing information related to bundle breakage, such as the number of broken bundles by class, product, facility and machine type. *Id.* These data will allow for more meaningful analysis, by allowing the Commission, the Postal Service, and stakeholders to consistently measure and track bundle breakage data over time.

## **2. Low Productivity on Automation Equipment**

In FY 2015, the Commission found that the productivities for the primary machines used to process flats, the automated processing on the APBS, the APPS, and the AFSM 100, were declining. FY 2015 ACD at 167-68. As shown in Table VI-4, the productivities for AFSM100 and APPS continue to decline, while the productivity for APBS improved by 4.1 percent in FY 2017 and FY 2018. Table VI-4 also shows that, from FY 2008 to FY 2018, these productivities have declined between 16.9 percent and 48.5 percent.

**Table VI-4**  
**Pieces Per Hour (PPH) Sorted**

| FY                              | AFSM100 Incoming<br>Secondary |               | SPBS/APBS Incoming |               | APPS Incoming |               |
|---------------------------------|-------------------------------|---------------|--------------------|---------------|---------------|---------------|
|                                 | PPH                           | % Change      | PPH                | % Change      | PPH           | % Change      |
| <b>2008</b>                     | 3273                          |               | 252                |               | 498           |               |
| <b>2009</b>                     | 3138                          | -4.1%         | 224                | -10.8%        | 451           | -9.3%         |
| <b>2010</b>                     | 2998                          | -4.5%         | 208                | -7.2%         | 430           | -4.7%         |
| <b>2011</b>                     | 2898                          | -3.3%         | 201                | -3.4%         | 397           | -7.7%         |
| <b>2012</b>                     | 2692                          | -7.1%         | 220                | 9.6%          | 361           | -9.0%         |
| <b>2013</b>                     | 2725                          | 1.2%          | 232                | 5.4%          | 350           | -3.0%         |
| <b>2014</b>                     | 2685                          | -1.5%         | 219                | -5.6%         | 319           | -9.1%         |
| <b>2015</b>                     | 2673                          | -0.4%         | 205                | -6.6%         | 304           | -4.5%         |
| <b>2016</b>                     | 2567                          | -4.0%         | 194                | -5.3%         | 271           | -11.0%        |
| <b>2017</b>                     | 2326                          | -9.4%         | 202                | 4.1%          | 265           | -2.2%         |
| <b>2018</b>                     | 2200                          | -5.4%         | 209                | 3.5%          | 256           | -3.4%         |
| <b>FY 2008 – FY 2018 Change</b> |                               | <b>-32.8%</b> |                    | <b>-16.9%</b> |               | <b>-48.5%</b> |

Source: PRC–LR–ACR2018/9.

In FY 2018, the Postal Service added 1,024 bins for sortation to APBS and APPS machines received an additional 426 bins. FY 2018 ACR at 28. For flat-shaped mail, these machines sort bundles, and the Postal Service asserts that making additional bins available reduces or eliminates the need for secondary sorts, thus reducing extra handling of bundles. *Id.* In addition, the Postal Service deployed a new Enhanced Package Processing System (EPPS) in FY 2018. *Id.* at 27. Due to declining pieces on the AFSM 100, the Postal Service removed 10 AFSM 100 machines.<sup>369</sup> The Postal Service asserts that there has been a loss of economies of scale related to volume declines, which has negatively affected the productivity of the AFSM 100. FY 2018 ACR at 28.

The FSS is another machine used by the Postal Service to process flats. In FY 2018, 22.5 percent of flats that destined in FSS zones were finalized on FSS equipment.<sup>370</sup> The Postal Service spent \$197.7 million on processing flats on FSS in FY 2018, a 5.0 percent decrease from FY 2017. *See* PRC–LR–ACR2018/9. The Postal Service attributes the decrease in total FSS costs to declining workload and increasing productivity. Responses to CHIR No. 11, question 2.b.

In Docket No. RM2018-1, the Commission has proposed that the Postal Service provide data on the cost and service impact of low productivity on automation equipment for flat-

<sup>369</sup> Responses to CHIR No. 6, question 10.

<sup>370</sup> Library Reference USPS–FY18–11, December 29, 2018, Excel file “USPS–FY18–11 MM Flats.xlsm,” tab “Coverage Factors,” cell E79.

shaped products, and Mail Processing Variance Reports. Order No. 5004 at 12, 16-19. The Commission anticipates that Mail Processing Variance Reports will provide additional insight into low automation on mail processing equipment by providing information related to target workhours and target productivities. *Id.* These data will allow for more meaningful analysis, by allowing the Commission, the Postal Service, and stakeholders to consistently measure and track the Postal Service's ability to meet its productivity targets over time.

### 3. Manual Sorting

In FY 2018, the Postal Service spent \$416.1 million on manually processing flats. Responses to CHIR No. 11, question 2.a., and PRC-LR-ACR2018/9. The Postal Service explains that in FY 2018, the Commission approved a change that assigned additional costs to non-MODS manual cost pools. Responses to CHIR No. 11, question 2.a. The Postal Service asserts that when the approved FY 2018 methodology is applied to FY 2017 data, the cost of manually processing Flats in FY 2017 was \$450.6 million. *Id.* Therefore, the Postal Service demonstrates that the cost of manually processing Flats in FY 2018 decreased 7.7 percent. According to the Postal Service, this decrease in cost is due primarily to declining flats volumes. *Id.* The available data for manual sorting lacks transparency, as there is no way to track and report the volume of flats that receive manual processing. The Commission and the Postal Service previously identified global issues with the cost and service performance of flats that are manually processed.<sup>371</sup> The Postal Service intends to reduce manual processing by "ensuring that mechanical rejects are rerun on the machines, and working with mailers to reduce bundle breakage." Responses to CHIR No. 11, question 2.a.

In Docket No. RM2018-1, the Commission has proposed that the Postal Service provide data on the cost and service impact of manual sorting on flat-shaped products, as well as eFlash Reports.<sup>372</sup> Order No. 5004 at 8, 11-12, 16-19. The Commission anticipates that the eFlash Reports will provide additional insight into manual processing by providing information such as manually processed volumes, manual workhours, and handling times, as well as a manual cost analysis. *Id.* These data will allow for more meaningful analysis, by allowing the Commission, the Postal Service, and stakeholders to consistently measure and track manual processing data over time.

### 4. Productivity and Service Issues in Allied Operations

Visibility into allied operations is limited. One way the Postal Service gains insight into allied operations is through Work in Process (WIP) cycles. The Postal Service reports that

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<sup>371</sup> See *Periodicals Mail Study: A Joint Report of the United States Postal Service and Postal Regulatory Commission*, September 2011, at 2.

<sup>372</sup> eFlash Reports report delivery unit workhours (LDC 43 Unit Distribution Manual) data of manual distribution for letters and flats. Docket No. ACR2015, Response of the United States Postal Service to Commission Information Request No. 1, November 28, 2016 (Docket No. ACR2015 Response to CIR No. 1). The eFlash system provides costs analysis based on manual distribution for letters and flats. Docket No. ACR2015 Response to CIR No. 1.

WIP cycle median hours increased from 52 hours to 56 hours for USPS Marketing Mail Flats and increased from 24 hours to 27 hours for Periodicals Flats. FY 2018 ACR at 30.

**Table VI-5**  
**Service Performance Diagnostics Tool**  
**Median 5 Day Work in Process**  
**USPS Marketing Mail Flats and Periodicals Flats, FY 2014–FY 2018**

| Time Period from Service Performance Diagnostics | USPS Marketing Mail Flats Median Hours | Periodicals Flats Median Hours |
|--|--|--------------------------------|
| FY 2014 (Week ending 10/01/13 - 9/30/14)         | 49                                     | 21                             |
| FY 2015 (Week ending 10/01/14 - 9/30/15)         | 52                                     | 23                             |
| FY 2016 (Week ending 10/01/15 - 09/30/16)        | 54                                     | 24                             |
| FY 2017 (Week ending 10/01/16 - 09/30/17)        | 52                                     | 24                             |
| FY 2018 (Week ending 10/01/17 - 09/30/18)        | 56                                     | 27                             |

Source: PRC–LR–ACR2018/9.

As shown in Table VI-5, median WIP cycle times for USPS Marketing Mail Flats have increased 7 hours since FY 2014 and 6 hours for Periodicals. In FY 2014, as part of its efforts to improve the productivity of its mail processing network, the Postal Service introduced a load leveling program meant to create loads that can be more evenly processed across the workweek.<sup>373</sup> However, the Postal Service has not quantified any associated cost savings for the load leveling operational changes.<sup>374</sup>

In Docket No. RM2018-1, the Commission has proposed that the Postal Service provide data on cost and service impacts of issues in allied operations, WIP metrics, and First-Class Mail Root Cause Point Impact Reports. Order No. 5004 at 12, 16-19. The Commission anticipates that WIP metrics and First-Class Mail Root Cause Point Impact Reports will provide additional insight into allied operations by providing information related to the measurement of time between operations and specific causes and impacts of service delays. *Id.* These data will allow for more meaningful analysis by allowing the Commission, the Postal Service, and stakeholders to consistently measure and track the time between operations and the causes and impacts of service delays.

<sup>373</sup> See Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-6, 8-10 of Chairman's Information Request No. 11, February 16, 2016, question 9.

<sup>374</sup> See Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2, 5-11 and 13-14 of Chairman's Information Request No. 3, January 30, 2015, question 6.

## 5. Increased Transportation Time and Cost

In the past 4 years, unit transportation costs have increased 13.7 percent overall. *See* Table VI-6. Since FY 2017, unit transportation costs have increased 15.5 percent. *See* PRC–LR–ACR2018/9. The Postal Service explains that between FY 2017 and FY 2018, USPS Marketing Mail Flats unit transportation costs increased due to more mail being entered farther from its destination, while Carrier Route and Periodicals unit transportation costs increases were “likely a function of the overall surface transportation inflationary pressures and sampling variation.”<sup>375</sup> The Postal Service notes that unit transportation costs for First-Class Mail Flats decreased in FY 2018, likely due to a decline in unit weight and the relative shift from surface to air transportation. *Id.*

**Table VI-6**  
**Flats Transportation Costs**  
**FY 2015–FY 2018**

|                          | FY 2015    | FY 2016    | FY 2017    | FY 2018    | Percent Change<br>FY 2015 to<br>FY 2018 |
|--------------------------|------------|------------|------------|------------|---|
| <b>Segment 14 Cost</b>   | 712,179    | 757,237    | 628,652    | 669,236    | -6.0%                                   |
| <b>Volume</b>            | 21,489,192 | 20,544,661 | 19,265,292 | 17,793,202 | -17.4%                                  |
| <b>Unit Cost (cents)</b> | 3.3        | 3.7        | 3.3        | 3.8        | 13.7%                                   |

Source: PRC–LR–ACR2018/9.

In Docket No. RM2018-1, the Commission has proposed that the Postal Service provide data on cost and service impacts of transportation issues, and SVWeb Report.<sup>376</sup> Order No. 5004 at 8, 12, 16-19. The Commission anticipates that SVWeb Reports will provide additional insight into transportation issues by providing information such as departure times, arrival times, space utilization, and national performance assessment goals. *Id.* These data will allow for more meaningful analysis, by allowing the Commission, the Postal Service, and stakeholders to consistently measure and track the Postal Service’s ability to efficiently transport flat-shaped mail and meet its goals.

<sup>375</sup> Responses of the United States Postal Service to Questions 1-5 of Chairman’s Information Request No. 22, March 13, 2019, question 5.

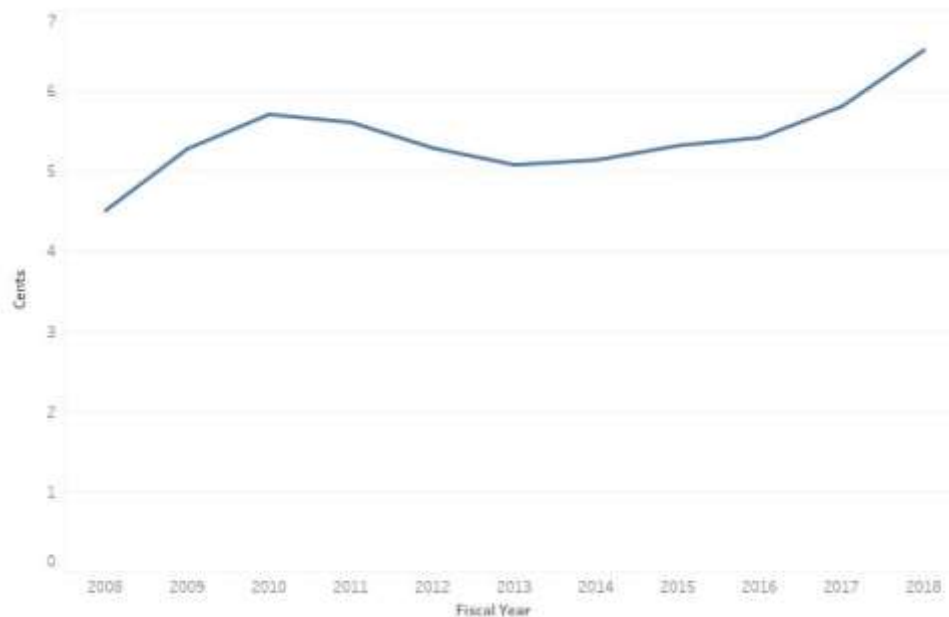
<sup>376</sup> The SVWeb applications allow managers to pull reports presenting Area, District, and facility data, such as the number of trips that have arrived and departed over a given period of time, the percentage of the load on each trip (utilization), and the on-time performance for each trip. Docket No. ACR2015, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, Report Regarding Information about Flats Data Systems, July 26, 2016, at 60-61 (120-Day Response). Using these reports, the Postal Service is able to track the usage of transportation resources, and identify opportunities to mitigate costs. 120-Day Response at 60-61.



## 6. Last mile/delivery

The Postal Service spent a total of \$1.2 billion in city carrier in-office costs for flats, which include casing costs for flats in FY 2018. *See* PRC–LR–ACR2018/9. Casing costs for Flats were expected to decrease as a result of the implementation of the FSS.<sup>377</sup> However, the unit in-office delivery costs increased from 5.8 cents in FY 2017 to 6.5 cents in FY 2018, a 12.2 percent increase. *See* Figure VI-1. The Postal Service provides some explanations for this increase, including that more mail required casing because less mail was processed on FSS equipment.<sup>378</sup>

**Figure VI-1**  
**Cost Segment 6: City Delivery Carriers – Office Activity**  
**Unit Costs, FY 2008–FY 2018**



Source: PRC–LR–ACR2018/9.

When the additional mail processing costs associated with the FSS are added to the city carrier in-office costs, the Postal Service spent \$1.4 billion processing flats to DPS in FY 2018.<sup>379</sup> This is relatively unchanged from FY 2017, despite a 7.8 percent decline in volume during the same period. *Id.* This is nearly the amount spent casing flats in FY 2008, when

<sup>377</sup> Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-15, 17-29 of Chairman's Information Request No. 7, February 8, 2016, question 7.

<sup>378</sup> Responses to CHIR No. 6, question 7. The volume of USPS Marketing Mail Flats processed on FSS equipment declined from 16 percent in FY 2017 to 11 percent in FY 2018. *Id.* Similarly, for USPS Marketing Mail Carrier Route, volume processed on FSS equipment declined from 18 percent in FY 2017 to 12 percent in FY 2018. *Id.*

<sup>379</sup> The cost of FSS processing in MODS and NDC facilities was \$198 million. *See* USPS–FY18–26.

volume was 93.5 percent higher than FY 2018.<sup>380</sup> In FY 2008, the Postal Service manually cased all flats because there were no FSS machines. Despite the addition of 100 FSS machines and lower volume, the Postal Service spent nearly the same total amount in the final sortation operation for flats in FY 2018.

In Docket No. RM2018-1, the Commission has proposed that the Postal Service provide data on cost and service impacts of last mile/delivery flats, and Last Mile Impact Reports. Order No. 5004 at 12, 17-19. The Commission anticipates that Last Mile Impact Reports will provide additional insight into last mile/delivery of flats by providing information related to on-time scores and last mile impacts. *Id.* These data will allow for more meaningful analysis, by allowing the Commission, the Postal Service, and stakeholders to consistently measure and track the impact of delivery on service performance scores.

## C. Comments

PostCom, MPA/ANM, Quad, ACMA, and the Public Representative filed comments related to Chapter 6 and Docket No. RM2018-1. The Postal Service filed Reply Comments regarding flats operational changes and Docket No. RM2018-1.

MPA/ANM, Quad, ACMA, and the Public Representative are concerned that the Postal Service is not effectively addressing flat-shaped mail cost and efficiency issues. MPA/ANM Comments at 1-4; Quad Comments at 1-2; ACMA Comments at 25-26; PR Comments at 43-44. Specifically, MPA-ANM is concerned with the Postal Service's failure to improve AFSM 100 productivity, FSS Throughput per Hour, and FSS DPS percentages. MPA/ANM Comments at 2-4. Quad is similarly concerned about the cost of FSS machines and the reliability of bundle breakage data. Quad Comments at 1-2. Quad comments that the Postal Service "needs to fix or remove the FSS from the Flats processing stream. . . ." *Id.* at 2. ACMA states that the Postal Service has failed to design and run a low-cost delivery system for flats. ACMA Comments at 25. ACMA urges the Commission to "escalate this matter and compel progress, or at the very least, demand analysis, straight answers, and solid data." *Id.* at 26. The Public Representative concludes that the cost coverage for USPS Marketing Mail Flats is "deadlocked" and operational initiatives do not appear to be effectively reducing costs. PR Comments at 44.

PostCom states that it appreciates the efforts of the Commission to explore the issue of flats costs in a more exhaustive fashion. PostCom Comments at 11. PostCom also suggests that open access to Informed Visibility data, with appropriate safeguards, would be beneficial to all parties. *Id.* at 14. Based on the Postal Service's statement that it is unable to estimate the impact of operational initiatives on flats costs, PostCom asserts that "there is no reason to expect that the operational changes outlined by the Postal Service will produce meaningful impacts." *Id.* at 11.

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<sup>380</sup> As detailed in PRC-LR-ACR2018/9, the cost segment 6 in-office cost for flats in FY 2008 was \$1.549 billion, \$195 million more than the combined FSS mail processing and in-office cost of \$1.354 billion in FY 2018. As further detailed in PRC-LR-ACR2018/9, flats volume was 34.35 billion pieces in FY 2008 and declined to 17.75 billion pieces in FY 2018, which represents a 48 percent decline.

In its reply comments, the Postal Service states that “the appropriate forum for addressing the flats costs issues raised by ACMA and others is Docket No. RM2018-1.” Postal Service Reply Comments at 11 (footnote omitted). The Postal Service asserts that it is “constantly seeking operational improvements to process flat-shaped mail more efficiently.” *Id.* at 12 (footnote omitted).

## **D. Next Steps and Status of Docket No. RM2018-1**

The Commission shares the concerns of the commenters that the Postal Service is not effectively addressing cost and service issues related to flats. The Commission is particularly concerned with the lack of a specific Postal Service plan to address these issues amid increasing costs, increasing losses, and declining service performance for flats. For example, the Commission is concerned that the Postal Service is not able to promptly respond to declining FSS operational metrics, and is instead still in the process of developing a team to address FSS issues, without a specific timeline to make any changes in FY 2019.

In Docket No. RM2018-1, the Commission proposed reporting requirements to increase the transparency of information related to flats, and the accountability of the Postal Service when it reports on operational initiatives designed to reduce flats costs. Order No. 5004 at 14-21. As discussed above, this information should provide more insight into the specific areas that impact flats, as well as the impact of operational initiatives on flats costs and service issues over time. The Commission anticipates that the data reporting will lead to the development of measurable goals to decrease the costs and improve the service of flats. In the meantime, the Commission will continue to encourage the Postal Service to use its data to ensure it is making cost-effective decisions. *Id.* at 6.

# Appendix A: Key Commission Findings and Directives Requiring Postal Service Action for Annual Compliance Reports

## KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2018 ACD)

### Periodicals Pricing Efficiency:

- *The Commission directs the Postal Service to provide an updated version of the Periodicals Pricing Report in its FY 2019 ACR. The report must include an analysis of how the pricing in Docket No. R2019-1 impacted the cost, contribution, and revenue of Periodicals in FY 2019 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2019. FY 2018 ACD, Chapter 2 at 22.*

### USPS Marketing Mail Flats:

- *The Commission finds that the issues raised in the FY 2010 ACD regarding USPS Marketing Mail Flats have significantly worsened, continuing a downward trend that began to accelerate in FY 2014. Despite the Postal Service's efforts to reduce USPS Marketing Mail Flats' costs through operational initiatives—efforts it is unable to measure—unit costs increased substantially over the last fiscal year. From FY 2010 to FY 2018, the cost coverage for USPS Marketing Mail Flats has decreased 13.1 percentage points. In addition, the Postal Service remains unable to predict, using reasonable assumptions, when the USPS Marketing Mail Flats product will cover costs, or what the impact is of any of the Postal Service's cost saving initiatives. Furthermore, in the last two Market Dominant price adjustments the Postal Service has chosen to increase USPS Marketing Mail Flats' prices only minimally above average. As the Commission has found before, it has broad authority to develop and implement a remedy to address an "extreme case" of a violation of 39 U.S.C. § 101(d).<sup>1</sup> The remedy that the Commission implemented in its FY 2010 ACD has proven insufficient to rectify the inadequate cost coverage of USPS Marketing Mail Flats. The Postal Service has chosen to pursue only minimal above-average price increases for this product, and it has been unable to reduce the product's costs. USPS Marketing Mail Flats continues to constitute an "extreme case" of deficient cost coverage. Therefore, the remedy must be*

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<sup>1</sup> See Order No. 1427; see also *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012).

*advanced. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class. Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and providing required documentation of those efforts in future Annual Compliance Reports. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter 6 of this report. FY 2018 ACD, Chapter 3 at 70-71.*

#### USPS Marketing Mail Parcels:

- The Commission finds that FY 2018 revenue for USPS Marketing Mail Parcels was not sufficient to cover attributable cost. The Postal Service's approach to improving cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate, yet still inadequate. The Commission strongly recommends that the Postal Service increase USPS Marketing Mail Parcels' prices by at least 2 percentage points above the average price increase for the USPS Marketing Mail class. If the Postal Service chooses not to increase USPS Marketing Mail Parcels' prices by at least 2 percentage points above average, it must provide an estimate of the impact of the price increase it proposes on USPS Marketing Mail's class-wide contribution and USPS Marketing Mail Parcels' specific contribution, as well as the impact of a 2 percentage point above-average price increase on USPS Marketing Mail's class-wide contribution and USPS Marketing Mail Parcels' specific contribution. In addition to above-average price increases, the Postal Service should continue to expend a reasonable amount of resources given the size of the product to explore and implement opportunities to further reduce the unit cost of USPS Marketing Mail Parcels and report on those opportunities and results in the FY 2019 ACR. FY 2018 ACD, Chapter 3 at 77.*

#### Inbound LC/AO Mail Costing Methodology:

- For purposes of this ACD, the Commission accepts the Postal Service's revenue distribution for inbound LC/AO mail. The Commission concludes however, that this is a change in analytical principles that the Commission has not approved and directs the Postal Service to file a petition for the initiation of a proceeding to consider this proposed change in analytical principles within 90 days of issuance of this ACD. FY 2018, Chapter 3 ACD at 80.*

#### Inbound Letter Post:

- The Commission finds that FY 2018 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission recommends that the Postal Service, in coordination with the Department of State, negotiate bilateral and multilateral agreements that contain rates for UPU letter post mail that are more compensatory*

*than terminal dues. The Commission further recommends that the Postal Service file rates for the Competitive Inbound Small Packets and Bulky Letters product as soon as possible. FY 2018 ACD, Chapter 3 at 84.*

- *The Commission directs the Postal Service to provide both International Mail Measurement System (IMMS) and QLMS CY 2018 and CY 2019 performance reports for Inbound Letter Post, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve service performance in the FY 2019 ACR. The Commission also directs the Postal Service to state in its FY 2019 ACR whether it forfeited revenue in CY 2018 and CY 2019 based on its QLMS results for the Inbound Letter Post product. If the Postal Service forfeited revenue in CY 2018 and CY 2019, the Commission directs the Postal Service to provide the forfeited amounts for CY 2018 and for CY 2019 based on all results available to date and explain how this amount is calculated based on service performance results. Id. at 86.*

#### Media Mail/Library Mail:

- *The Commission finds that FY 2018 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail. FY 2018 ACD, Chapter 3 at 92.*

#### Competitive NSAs:

- *The Commission finds that Priority Mail Contract 179 and Priority Mail Contract 433 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. Because Priority Mail Contract 179 is no longer active, no further action is required. For Priority Mail Contract 433, the Commission directs the Postal Service to change from quarterly reporting to monthly reporting starting with April 2019, with each monthly report due no later than 30 days after the end of that month. Additionally, the Commission directs the Postal Service to report within 90 days of issuance of this ACD whether it intends to renegotiate prices for Priority Mail Contract 433. FY 2018 ACD, Chapter 4 at 101.*

#### International Cost and Revenue Analysis:

- *The Commission directs the Postal Service to incorporate inbound M-Bags into the International Direct Sacks—M-Bags Competitive product in future ICRA filings. FY 2018 ACD, Chapter 4 at 103.*
- *For purposes of this ACD, the Commission accepts the Postal Service's distribution of PRIME enhanced payments. The Commission concludes however, that this is a change in analytical principles that the Commission did not approve and directs the Postal*

*Service to file a petition for the initiation of a proceeding to review this proposed change in analytical principles within 90 days of issuance of this ACD.<sup>2</sup>*

International Priority Airmail:

- *The Commission finds that IPA was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. The Commission directs the Postal Service to report on the following issues involving IPA within 90 days of the issuance of this ACD:*
  - *The feasibility of directly estimating the costs of the IPA product.*
  - *The feasibility of developing country-specific information on IPA NSA volume or, alternatively, a methodology to distribute settlement charges more accurately.*
  - *The estimated variance of the reported non-NSA IPA product costs based on an analysis of the variance of each of the measurements used to calculate non-NSA IPA product costs. This analysis should include the variance at the cost segment and component level.*

*Additionally, the Commission directs the Postal Service, when it files a petition for the initiation of a proceeding to consider the proposed change in analytical principles for PRIME enhanced payments, to ensure that the proposed distribution does not allocate these NSA-specific costs to the non-NSA IPA product.<sup>3</sup>*

International Ancillary Services:

- *The Commission finds that International Ancillary Services was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. The Commission directs the Postal Service to investigate the discrepancies between published rates and reported revenue per piece. The Commission further directs the Postal Service to file a report within 120 days of issuance of this ACD on the results of this investigation and on the feasibility of disaggregating indemnities between insurance included in the product and additional insurance purchased for the mailpiece. FY 2018 ACD, Chapter 4 at 106.*

International Money Transfer Service—Inbound:

- *The Commission finds that IMTS—Inbound was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2018. The Commission directs the Postal Service to provide an update on the status of the request for a delegation of authority under the Circular 175 process from the Department of State to terminate or renegotiate the agreements that comprise the IMTS—Inbound product within 120 days of issuance of this ACD. FY 2018 ACD, Chapter 4 at 107.*

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<sup>2</sup> *Id.*; see also section 4.C.3.b., *supra* (describing an additional requirement when filing the required petition).

<sup>3</sup> FY 2018 ACD, Chapter 4 at 105; see section 4.C.3.b., *supra*.

## Competitive Outbound International Products Consisting of NSAs:

- *The Commission concludes that Competitive outbound international products consisting of NSAs satisfied 39 U.S.C. § 3633(a)(2) because revenue exceeded attributable cost for each product. When the Postal Service files its FY 2019 ACD it should correctly identify all Competitive outbound international products consisting of NSAs that do not cover costs. FY 2018 ACD, Chapter 4 at 109.*

## Competitive Nonpostal Services:

- *The Commission finds that Officially Licensed Retail Products (OLRP) was not in compliance in FY 2018, as revenue did not cover attributable costs. The Commission directs the Postal Service to identify and implement ways to bring cost coverage to or above 100 percent for OLRP. FY 2018 ACD, Chapter 4 at 110.*

## First-Class Mail Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2018. The Commission also recognizes that the Postal Service has made progress in developing quantitative analysis linking its root cause assessments with the impact on service performance results for First-Class Mail. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for all First-Class Mail products in FY 2019. FY 2018 ACD, Chapter 5 at 170.*
- *The Commission is concerned that service performance results for First-Class Mail Single-Piece Letters/Postcards declined from FY 2017 to FY 2018, and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the fourth year in a row. Therefore, in addition to directing the Postal Service to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2019, the Commission directs the Postal Service to provide information for each of the seven geographic Postal Service Areas on the following two matters.*
  - *First, for each Area, the Postal Service shall evaluate the efficacy of its FY 2019 efforts to improve First-Class Mail service performance. This evaluation shall describe the Area's progress made toward addressing the top root causes of First-Class Mail service performance failures in FY 2018 and explain how the Area's progress (or lack thereof) toward addressing each root cause has affected on-time service performance for First-Class Mail. Where appropriate, this evaluation shall indicate if the reported progress and effect on performance apply only to particular categories of First-Class Mail pieces (e.g., based on shape, product, or service standard).*



- *Second, for each Area, the Postal Service shall provide a detailed plan to improve First-Class Mail service performance that describes each planned action, identifies the problem that the planned action is expected to remediate, and provides an estimated timeframe for implementation and completion of each planned action. Where appropriate, this plan shall indicate if the planned action, underlying problem, and estimated timeframe apply to only particular categories of First-Class Mail pieces (e.g., based on shape, product, or service standard). FY 2018 ACD, Chapter 5 at 171.*
- *The report for each Area shall identify a responsible Postal Service representative, with knowledge of these two matters specific to the Area, who will be available to provide prompt responses to requests for clarification from the Commission. The report for each Area shall be filed within 90 days of the issuance of this report. An updated report from each Area shall be filed at the time of the FY 2019 ACR. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2018 should clarification be necessary. FY 2018 ACD, Chapter 5 at 171.*
- *Additionally, to facilitate the monitoring of First-Class Mail service performance (particularly for Single-Piece Letters/Postcards), the Commission directs the Postal Service to provide trackable data that is consistently collected and will continue to improve transparency. The Commission directs the Postal Service to provide the following data, described in items 1 through 6 below, for First-Class Mail in FY 2019. Data shall be provided for FY 2019 Quarter 1, Quarter 2, and “mid-year”<sup>4</sup> within 90 days of the issuance of this report. Data shall be provided for FY 2019 Quarter 3, Quarter 4, “second-half”<sup>5</sup> and annualized for the fiscal year, in the FY 2019 ACR.*
  1. *The top five root cause point impacts for First-Class Mail, disaggregated by shape/product and service standard<sup>6</sup>*
  2. *The point impact data for First-Class Mail Single-Piece Letters/Postcards, disaggregated by service standard presented for the nation, each Area, and each district<sup>7</sup> attributable to:*
    - a) *Collection delays*
    - b) *Origin processing delays*
    - c) *Origin mis-sent*

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<sup>4</sup> Mid-year refers to the aggregation of the data for Quarters 1 and 2 of FY 2019.

<sup>5</sup> Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2019. Annualized refers to the aggregation of the data for all 4 quarters of FY 2019.

<sup>6</sup> See, e.g., Additional Results File, tabs “Q20 - SPFC” and “Q20 – PFCM.”

<sup>7</sup> See, e.g., Additional Results File, tabs “Q30 Two-Day” and “Q30 Three-to-Five-Day.”

- d) *AADC/ADC processing delays, presented in three separate tables specific to air transportation, ground transportation, and both*
  - e) *Late incoming secondary processing*
  - f) *Miss by LPO*
  - g) *Last mile failures*
  - 3. *The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated, using daily cubic feet volume<sup>8</sup>*
  - 4. *The number of CLTs (any HCR that is late more than 4 hours), presented for the nation, each Area, and each district<sup>9</sup>*
  - 5. *The performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals), presented for the nation, each Area, and each district<sup>10</sup>*
  - 6. *The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2019. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2019, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2018.<sup>11</sup>*
- *Where appropriate, the Postal Service shall explain the reasons for any differences in calculation of these data in FY 2019 versus FY 2018, and shall propose a method for comparing the FY 2019 data to the FY 2018 data. The Postal Service shall provide these data in an Excel spreadsheet format. If the Postal Service cannot provide responsive data at the requested level of granularity, then responsive data should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2018 should clarification be necessary. FY 2018 ACD, Chapter 5 at 171-173.*

#### USPS Marketing Mail Service Performance:

- *The Commission expects that the service performance results for the USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—Retail) that did not achieve their FY 2018 service*

<sup>8</sup> See, e.g., FY 2018 Root Cause File, tab “Q4a.”

<sup>9</sup> See, e.g., FY 2018 Root Cause File, tab “Q4c.”

<sup>10</sup> See, e.g., FY 2018 Root Cause File, tab “Q1a.”

<sup>11</sup> See, e.g., Library Reference USPS—FY18—NP30, December 28, 2018, Excel file “Response2 - ACD.FCM.FY18Q3Q4.Q1b.NONPUBLIC.xlsx.”

*performance targets will improve in FY 2019. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for these products. FY 2018 ACD, Chapter 5 at 179.*

- *If the service performance results for any USPS Marketing Mail product do not achieve the applicable annual service performance target in FY 2019, then the FY 2019 ACR shall include: (1) the top five root cause point impacts for the product for each quarter and annually for FY 2019, disaggregated by shape/product and entry level/service standard; (2) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve this product's service performance (including any progress toward addressing the applicable top root cause point impacts reported for FY 2018); and (3) a detailed plan explaining how this product's results will be improved. If the Postal Service cannot provide responsive data at the requested level of granularity, then responsive data should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. Where appropriate, the Postal Service shall specifically address how the evaluation and plan apply to mailpieces by entered at origin versus mailpieces entered further into the mail stream. FY 2018 ACD, Chapter 5 at 180.*

#### Periodicals Service Performance:

- *In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets in FY 2018. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. The Commission also directs that the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve service performance for In-County and Outside County Periodicals (including any progress toward addressing the failure to process mail in FIFO order and failure to run to daily processing capacity described in the FY 2018 ACR) and (2) a detailed plan explaining how these products' results will be improved. FY 2018 ACD, Chapter 5 at 182.*

#### Package Services Service Performance:

- *FY 2018 BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the seventh consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for BPM Flats. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. The Commission also directs that the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve service performance for BPM Flats (including any progress toward addressing the manual processing issues described in*

*the FY 2018 ACR) and (2) a detailed plan explaining how this product's results will be improved. FY 2018 ACD, Chapter 5 at 185.*

- *FY 2018 Media Mail/Library Mail service performance results were near the service performance target. The Commission expects that the service performance results for Media Mail/Library Mail will improve in FY 2019. If the results for Media Mail/Library Mail do not achieve the service performance target in FY 2019, then the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts to improve service performance for Media Mail/Library Mail (including any progress toward addressing the manual processing issues described in the FY 2018 ACR) and (2) a detailed plan explaining how this product's results will be improved. Id.*

Special Services Service Performance:

- *The Postal Service exceeded service performance targets for all reported Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service will improve in FY 2019. If the results for Post Office Box Service do not achieve the service performance target in FY 2019, then the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts (including the six planned actions described in the FY 2018 ACR) to improve on-time service performance for this product and (2) a detailed plan explaining how this product's results will be improved. FY 2018 ACD, Chapter 5 at 189.*

Post Office Suspensions:

- *The Commission reiterates the importance of resolving all remaining suspended post offices as soon as possible. The Commission expects the Postal Service to resolve all remaining suspended post offices by the end of FY 2020, including the 94 additional post offices suspended in FY 2017 and FY 2018, by either reopening them or closing them in compliance with the post office discontinuance process. The Commission directs the Postal Service to continue to file quarterly updates on the status of the 662 post offices suspended at the end of FY 2016 and actions taken to resolve them. The Postal Service must file this information within 40 days after the end of each quarter in FY 2019. The report for FY 2019, Quarter 4 must provide an updated plan for resolving all remaining suspended post offices, including post offices suspended in FY 2017, FY 2018, and FY 2019. If the Postal Service is unable to meet the timeline it provided for resolving the remaining suspended post offices, the Postal Service must explain in detail in the FY 2019 ACR why it was unable to do so. FY 2018 ACD, Chapter 5 at 197-198.*

## Customer Satisfaction:

- *Because customer satisfaction for residential, small/medium business, and large business customers declined in FY 2018, the Commission will continue to monitor customer satisfaction closely in FY 2019. The FY 2019 ACR must describe results of the Postal Service's research into how large business customer experiences drive overall satisfaction with Market Dominant mailing services. The Commission recommends that the Postal Service examine customer satisfaction by mailing service or product type and focus on improving areas related to key drivers of customer satisfaction. FY 2018 ACD, Chapter 5 at 206.*
- *The Postal Service should continue to take appropriate actions to improve customer satisfaction with Market Dominant products for each customer type (residential, small/medium business, and large business) as outlined in the FY 2018 ACR. In the FY 2019 ACR, the Postal Service must describe actions taken to improve customer satisfaction for each customer type in FY 2019 and explain whether these actions were effective. Id. at 206-207.*

# STATUS OF KEY COMMISSION FINDINGS AND DIRECTIVES REQUIRING POSTAL SERVICE ACTION FOR FUTURE ANNUAL COMPLIANCE REPORTS (FY 2017 ACD)

## Periodicals Pricing Efficiency:

- *The Commission directs the Postal Service to include an updated version of the Periodicals Pricing Report in its FY 2018 ACR. The report must include an analysis of how the pricing in Docket No. R2018-1 impacted the cost, contribution, and revenue of Periodicals in FY 2018 and whether the new pricing improved the efficiency of Periodicals pricing in FY 2018. FY 2017 ACD, Chapter 2 at 23.*
  - In the FY 2018 ACD, the Commission “concludes that, on the whole, the Postal Service’s report meaningfully responds to the Commission’s directive. In the Periodicals Pricing Report, the Postal Service provided a robust narrative and workpapers containing quantitative analyses.” FY 2018 ACD, Chapter 2 at 21.

## Marketing Mail Flats:

- *The Commission finds that, in FY 2017, no progress was made toward addressing the issues it raised in the FY 2010 ACD. Despite the Postal Service efforts to reduce flats costs through operational initiatives, unit costs increased substantially from FY 2016. The Commission understands that the migration of Carrier Route Flats played a significant role in the cost increase due to the migration of low cost pieces. However, even when Carrier Route and Flats data are combined, unit costs still increased and unit contribution decreased. The Postal Service must continue responding to the requirements of the FY 2010 ACD directive by proposing above-average price increases for USPS Marketing Mail Flats, striving to reduce USPS Marketing Mail Flats cost, and providing the required documentation of those efforts in future ACRs. FY 2017 ACD, Chapter 3 at 58.*
  - In the FY 2018 ACD, the Commission “finds that the issues raised in the FY 2010 ACD regarding USPS Marketing Mail Flats have significantly worsened, continuing a downward trend that began to accelerate in FY 2014. Despite the Postal Service’s efforts to reduce USPS Marketing Mail Flats’ costs through operational initiatives—efforts it is unable to measure—unit costs increased substantially over the last fiscal year. From FY 2010 to FY 2018,

the cost coverage for USPS Marketing Mail Flats has decreased 13.1 percentage points. In addition, the Postal Service remains unable to predict, using reasonable assumptions, when the USPS Marketing Mail Flats product will cover costs, or what the impact is of any of the Postal Service's cost saving initiatives. Furthermore, in the last two Market Dominant price adjustments the Postal Service has chosen to increase USPS Marketing Mail Flats' prices only minimally above average. As the Commission has found before, it has broad authority to develop and implement a remedy to address an 'extreme case' of a violation of 39 U.S.C. § 101(d).<sup>12</sup> The remedy that the Commission implemented in its FY 2010 ACD has proven insufficient to rectify the inadequate cost coverage of USPS Marketing Mail Flats. The Postal Service has chosen to pursue only minimal above-average price increases for this product, and it has been unable to reduce the product's costs. USPS Marketing Mail Flats continues to constitute an 'extreme case' of deficient cost coverage. Therefore, the remedy must be advanced. In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class. Additionally, the Postal Service must continue responding to the requirements of the FY 2010 ACD directive by reducing USPS Marketing Mail Flats' costs and providing required documentation of those efforts in future Annual Compliance Reports. Moreover, the Postal Service must continue to comply with the FY 2015 directive, as further discussed in Chapter 6 of this report." FY 2018 ACD, Chapter 3 at 70-71.

#### Money Orders:

- *The Commission finds that FY 2017 revenue for Money Orders was not sufficient to cover attributable cost. The Commission directs the Postal Service to continue its investigation into debit card fee attribution and update the Commission on its progress and any potential corresponding methodological changes within 90 days of the issuance of this ACD.* FY 2017 ACD, Chapter 3 at 63.
- The Postal Service filed a petition proposing to change the costing methodology for the treatment of debit card expenses on June 25, 2018.<sup>13</sup> Proposal Four was approved by the Commission in Order No. 4757 on August 13, 2018.<sup>14</sup> The Postal Service contends that had this methodology

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<sup>12</sup> See Order No. 1427; see also *USPS v. Postal Regulatory Comm'n*, 676 F.3d 1105, 1107-08 (D.C. Cir. 2012).

<sup>13</sup> Docket No. RM2018-7, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Four), June 25, 2018.

<sup>14</sup> Docket No. RM2018-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), August 13, 2018 (Order No. 4757).

been applied for FY 2017, Money Orders would have covered its attributable costs.

#### Incremental Cost Methodology:

- *For its FY 2018 ACR filing, the Commission directs the Postal Service to reconcile the difference in methodology in calculating total attributable costs between the Incremental Costs Report and the CRA by including incremental costs at the class level in the CRA. The Commission also directs the Postal Service to report the component-level total and institutional costs in the Incremental Costs Report. FY 2017 ACD, Chapter 1 at 10.*
  - The Postal Service filed a petition seeking a change in analytical methodology for periodic reporting relating to incremental costing procedures on June 1, 2018.<sup>15</sup> The Commission approved Proposal Three in Order No. 4719 on July 19, 2018.<sup>16</sup>
  - The Postal Service reported the component-level total and institutional costs in Library References USPS–FY18–43 and USPS–FY18–NP10.

#### Inbound Letter Post:

- *The Commission finds that FY 2017 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission directs the Postal Service, within 90 days, to submit an update on its collection of accurate shaped-based data, and development of costing models for Inbound Letter Post using this shape-based data if it has not yet filed a rulemaking proposal to implement shape-based costing for Inbound Letter Post in the Domestic Processing Model and the ICRA. FY 2017 ACD, Chapter 3 at 68.*
  - The Postal Service proposed a change in analytical principles to disaggregate the cost of Inbound Letter Post small packets from the cost of Inbound Letter Post letters and flats in Docket No. RM2018-8.<sup>17</sup> The Commission approved this proposal in Order No. 4827.<sup>18</sup>
- *The Commission recommends that the Postal Service identify and implement operational strategies to lower costs for Inbound Letter Post in FY 2018, particularly*

<sup>15</sup> Docket No. RM2018-6, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), June 1, 2018.

<sup>16</sup> Docket No. RM2018-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), July 19, 2019 (Order No. 4719).

<sup>17</sup> Docket No. RM2018-8, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), June 26, 2018.

<sup>18</sup> Docket No. RM2018-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), September 21, 2018 (Order No. 4827).



*the costs for small packets. The Commission also recommends that the Postal Service continue to pursue compensatory terminal dues in the UPU and to pursue bilateral agreements that contain Inbound Letter Post rates that are more compensatory than UPU terminal dues. FY 2017 ACD, Chapter 3 at 68.*

- The Postal Service requested to transfer the Inbound Letter Post Small Packets and Bulky Letters product to the Competitive Product list.<sup>19</sup> The Commission approved this proposal in Order No. 4980.<sup>20</sup> “Removal of small packets and bulky letters from the Inbound Letter Post product should improve the financial performance of the Inbound Letter Post product.” FY 2018 ACD, Chapter 3 at 83.
- In the FY 2018 ACD, “[t]he Commission finds that FY 2018 revenue for Inbound Letter Post was not sufficient to cover attributable cost. The Commission recommends that the Postal Service, in coordination with the Department of State, negotiate bilateral and multilateral agreements that contain rates for UPU letter post mail that are more compensatory than terminal dues. The Commission further recommends that the Postal Service file rates for the Competitive Inbound Small Packets and Bulky Letters product as soon as possible.” FY 2018 ACD, Chapter 3 at 84.
- *The Commission directs the Postal Service to provide both IMMS and QLMS CY 2017 and CY 2018 performance reports for Inbound Letter Post, aggregations of weekly failure reports, and an analysis of the failures and steps being taken to improve service performance in the FY 2018 ACR. FY 2017 ACD, Chapter 3 at 70.*
  - The Postal Service provided the requested performance reports for Inbound Letter Post in Library Reference USPS–FY18–NP30.

#### Market Dominant International NSAs:

- *The Commission finds that the Inbound Market Dominant PRIME Tracked Service Agreement product did not meet the criteria of 39 U.S.C. § 3622(c)(10). The Commission directs the Postal Service to encourage more countries to participate in the Inbound Market Dominant PRIME Tracked Service Agreement, as more volume exchanged within this agreement should improve cost coverage. In addition, in 90 days, the Postal Service shall file revised financial workpapers in Docket No. R2017-3 to reflect actual year-to-date volume, revenue, and cost in FY 2018. FY 2017 ACD, Chapter 3 at 74.*

<sup>19</sup> Docket No. MC2019-17, United States Postal Service Request to Transfer Inbound letter Post Small Packets and Bulky Letters, and Inbound Registered Service Associated with Such Items to the Competitive Product List, November 16, 2018.

<sup>20</sup> Docket No. MC2019-17, Order Conditionally Approving Transfer, January 9, 2019 (Order No. 4980).

- The Postal Service provided revised financial workpapers in Docket No. R2017-3 that reflect actual year-to-date volume, revenue, and cost in FY 2018.<sup>21</sup>

#### Media Mail/Library Mail:

- *The Commission finds that FY 2017 revenue for Media Mail/Library Mail was not sufficient to cover attributable cost. However, the Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate. The Commission also encourages the Postal Service to explore opportunities to further reduce the unit cost of Media Mail/Library Mail.* FY 2017 ACD, Chapter 3 at 75.
- The Postal Service increased Media Mail/Library Mail prices by an above-average percentage in Docket No. R2019-1 and the Commission finds that the "Postal Service's approach to improve cost coverage through above-average price increases in future Market Dominant price adjustments is appropriate." FY 2018 ACD, Chapter 3 at 92.

#### PHI NSA:

- *The Commission finds that the PHI NSA did not meet the criteria of 39 U.S.C. § 3622(c)(10)(A) in Contract Year 3. If the Postal Service provides the Commission with the amended contract for review, the filing shall include a volume forecast for the remainder of the PHI NSA and an estimate of the total contract net financial contribution. If an amended contract is not in effect by June 30, 2018, the PHI NSA will remain suspended.* FY 2017 ACD, Chapter 3 at 76-77.
- "The Postal Service terminated the PHI NSA at the end of Contract Year 4 . . . ." <sup>22</sup>

#### Domestic Competitive NSAs

- *The Commission provisionally accepts the Postal Service's estimates of domestic NSA attributable costs for purposes of the instant docket. The Commission finds, however, that the Postal Service's estimate of domestic NSA attributable costs employs a new methodology, and directs the Postal Service to file a petition for the initiation of a*

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<sup>21</sup> Docket No. ACR2017, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2017 Annual Compliance Determination, June 27, 2018.

<sup>22</sup> FY 2018 ACD at 94; see Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Termination of Agreement, June 19, 2018.

*proceeding to consider proposed changes in analytical principles for the new methodology within 90 days of issuance of this ACD. FY 2017 ACD, Chapter 1 at 11.*

- The Postal Service filed a petition for the initiation of a proceeding to consider proposed changes in analytical principles for the new methodology on June 1, 2018.<sup>23</sup> On July 19, 2018, the Commission approved Proposal Three, “encompassing procedure one and procedure two, but modifies procedure two to include an additional threshold, as proposed by UPS.” Order No. 4719 at 10.
- *The Commission finds that Priority Mail Contract 123, Priority Mail Contract 183, Priority Mail Contract 214, and Priority Mail Contract 228 were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. Because Priority Mail Contract 183, Priority Mail Contract 214, and Priority Mail Contract 228 are no longer active, no further action is required. The Commission directs the Postal Service to report within 30 days of issuance of this ACD on the result of its review of the cost model underlying Priority Mail Contract 123 and on any additional steps it plans to take to improve cost coverage. FY 2017 ACD, Chapter 4 at 84.*
- The Postal Service filed a Notice of Extension and updated financial spreadsheets on June 1, 2018 for Priority Mail Contract 123.<sup>24</sup> In FY 2018, Priority Mail Contract 123 is in compliance with 39 U.S.C. § 3633(a)(2).

#### IMTS—Outbound and Inbound:

- *The Commission finds that IMTS—Outbound and IMTS—Inbound were not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. Given the recurring volatility in unit costs, the Postal Service has not provided sufficient evidence that the FY 2018 price increases will result in full cost coverage. Therefore, the Commission directs the Postal Service to increase the prices for IMTS—Outbound in order to bring the product into compliance in its next request for a rate adjustment for Competitive rates of general applicability. The Commission directs the Postal Service to request a delegation of authority from the Department of State under the Circular 175 process to terminate or renegotiate the agreements that comprise the IMTS—Inbound product, and to provide an update on the status of this process within 120 days of issuance of this ACD. If the Postal Service identifies competing priorities as a reason for it not being able to comply fully with the Commission’s directive, it should fully describe those competing priorities and provide a clear justification for why the Commission’s directive was not followed. FY 2017 ACD, Chapter 4 at 86.*

<sup>23</sup> Docket No. RM2018-6, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), June 1, 2018.

<sup>24</sup> Docket No. CP2015-80, USPS Notice of Extension of Priority Mail Contract 123, June 1, 2018.

- The Postal Service updated the Commission that it had requested a delegation of authority from the Department of State under the Circular 175 process to terminate the agreements that comprise the IMTS—Inbound product on July 26, 2018.<sup>25</sup>
- The Postal Service also proposed increased prices for IMTS—Outbound in Docket No. CP2019-3, which the Commission approved in Order No. 4876.<sup>26</sup>

#### Competitive International Ancillary Services:

- *The Commission finds that International Ancillary Services was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on its evaluation of Outbound International Insurance cost reporting and whether a change in analytical principles is warranted. If the Postal Service does not determine that a change in analytical principles is warranted, the Commission directs the Postal Service to increase the prices for Outbound International Insurance in order to bring the product into compliance. FY 2017 ACD, Chapter 4 at 87.*
  - The Postal Service proposed changes to analytical principles concerning the costing methodology for Outbound International Insurance in Docket No. RM2018-9.<sup>27</sup> The Commission approved the proposal in Order No. 4798.<sup>28</sup>

#### First-Class Mail Service Performance:

- *The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2017. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for all First-Class Mail products in FY 2018. If the Postal Service does not maintain or improve its service performance results in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how performance shall be improved. FY 2017 ACD, Chapter 5 at 144.*
  - “The Commission finds that the Postal Service did not meet its service performance targets for First-Class Mail in FY 2018. The Commission also

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<sup>25</sup> Docket No. ACR2017, Third Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2017 Annual Compliance Determination, July 26, 2018.

<sup>26</sup> Docket No. CP2019-3, Order Approving Price Adjustments for Competitive Products, November 13, 2018 (Order No. 4876).

<sup>27</sup> Docket No. RM2018-9, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), June 26, 2018.

<sup>28</sup> Docket No. RM2018-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), August 28, 2018 (Order No. 4798).

recognizes that the Postal Service has made progress in developing quantitative analysis linking its root cause assessments with the impact on service performance results for First-Class Mail. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for all First-Class Mail products in FY 2019.” FY 2018 ACD, Chapter 5 at 170.

- *Although the improvements observed in the FY 2017 First-Class Mail service performance results are encouraging, particularly after the improvement reported in FY 2016, the Commission remains concerned that the FY 2017 service performance results reported for First-Class Mail Single-Piece Letters/Postcards have not returned to the level reported before FY 2015 and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the third year in a row. The Commission directs the Postal Service to improve service performance results for First-Class Mail Single-Piece Letters/Postcards in FY 2018. FY 2017 ACD, Chapter 5 at 145.*
  - *“The Commission is concerned that service performance results for First-Class Mail Single-Piece Letters/Postcards declined from FY 2017 to FY 2018, and determines that First-Class Mail Single-Piece Letters/Postcards is not in compliance for the fourth year in a row.” FY 2018 ACD, Chapter 5 at 171.*
- *To facilitate the monitoring of service performance (particularly for First-Class Mail Single-Piece Letters/Postcards), the Commission also directs the Postal Service to provide trackable data that is consistently collected and will continue to add transparency to the different processing phases of First-Class Mail Single-Piece Letters/Postcards. The Commission directs the Postal Service to provide the following information (as applicable) for FY 2018, Quarter 1, Quarter 2, and “mid-year” within 90 days of the issuance of this report.<sup>29</sup> The Commission directs the Postal Service to include the following information for FY 2018, Quarter 3, Quarter 4, “second-half” and annualized for the fiscal year, in the FY 2018 ACR.<sup>30</sup> Except for items 1a, 1b, 4a, and 4c, all results should be disaggregated by service standard category (2-Day and 3-5- Day).*
  1. *The 24-Hour Clock:*
    - a. *The national level, area level, and district level performance for each national operating plan target (also referred to as the 24-Hour Clock national clearance goals) for each quarter and annually for FY 2018.<sup>31</sup>*

<sup>29</sup> Mid-year refers to the aggregation of the date for Quarters 1 and 2 of FY 2018.

<sup>30</sup> Second-half refers to the aggregation of the data for Quarters 3 and 4 of FY 2018. Annualized refers to the aggregation of the data for all four quarters of FY 2018.

<sup>31</sup> See December 29, 2017 Public File, tab “Q1a.”

- b. The 10 facilities with the most failures in meeting each of the 24-Hour Clock national clearance goals during FY 2018. For each facility identified, please state the number of times that the facility failed to meet that national clearance goal during FY 2018, and the corresponding number of times that the facility failed to meet that national clearance goal during FY 2017.<sup>32</sup>
2. Collections/First Mile:
  - a. The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with collection delays.<sup>33</sup>
3. Origin Processing:
  - a. The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated using daily cubic feet volume.<sup>34</sup>
  - b. The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards that are classified as origin processing failures (root cause at origin).<sup>35</sup>
4. Transit:
  - a. The air carrier capacity requested, air carrier capacity received, and air capacity gap calculated using daily cubic feet volume.<sup>36</sup>
  - b. The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards with AADC/ADC processing delays, presented in three separate tables specific to air transportation, ground transportation, and both.<sup>37</sup>
  - c. The national level, area level, and district level of CLTs (any HCR that is late more than 4 hours).<sup>38</sup>
5. Destination Processing:
  - a. The national level, area level, and district level of TTMS aggregate estimates of First-Class Mail Single-Piece Letters/Postcards that

<sup>32</sup> See Docket No. ACR2017, Library Reference USPS–FY17–NP30, December 29, 2017, Excel file “Response2 – ACD.FCM.FY17Q3Q4.Q1b.NONPUBLIC.xlsx.”

<sup>33</sup> See December 29, 2017 Public File, tab “Q2b,” December 28, 2017 Public File, tab “Q2 and 3a.”

<sup>34</sup> See December 29, 2017 Public File, tabs “Q3b” and “Q3c;” December 28, 2017 Public File, tab “Q3b.”

<sup>35</sup> See December 29, 2017 Public File, tab “Q4f,” December 28, 2017 Public File, tab “Q3d.”

<sup>36</sup> See December 29, 2017 Public File, tab “Q4a.”

<sup>37</sup> See *id.*, tabs “Q4b,” “Q4b\_air,” “Q4b\_surface,” “Q4c,” “Q4c\_air,” and “Q4c\_surface;” December 28, 2017 Public File, tabs “Q3c,” “Q3c\_air,” and “Q3c surface.”

<sup>38</sup> See December 29, 2017 Public File, tab “Q4e.”

*have already missed the service standard by the LPO within the destination processing phase.*<sup>39</sup>

- b. The national level, area level, and district level percentage of First-Class Mail Single-Piece Letters/Postcards that are classified as destination processing failures (root cause at destination).*<sup>40</sup>

*6. Delivery/Last Mile:*

- a. The national level, area level, and district level of TTMS aggregate estimates of First-Class Mail Single-Piece Letters/Postcards with Delivery/Last Mile failures reported.*<sup>41</sup>
- b. The national level, area level, and district level volume and percentage of First-Class Mail Single-Piece Letters/Postcards subject to the 2-Day or the 3-5-Day service standards.*<sup>42</sup>

*The Commission expects that the Postal Service will provide this data and information consistent with the methodology used in Docket Nos. ACR2015, ACR2016, and ACR2017 and use an Excel spreadsheet format, if practicable. If the Postal Service cannot provide responsive information at the requested level of granularity, then responsive information should be provided at the most practicable level of granularity, along with a narrative identifying and explaining the level of granularity provided in the response. The Postal Service is encouraged to file a motion for clarification under 39 C.F.R. § 3001.21(a) in Docket No. ACR2017 should clarification be necessary.*

*Furthermore, service performance results for First-Class Mail Flats continue to fall substantially short of annual performance targets. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. FY 2017 ACD, Chapter 5 at 145-148.*

- The Postal Service complied with the data reporting as directed by the FY 2017 ACD; FY 2018 Root Cause File. Because the Postal Service did not improve service performance results for First-Class Mail, the Commission directs the Postal Service to provide additional data, an evaluation of the efficacy of the Postal Service's improvement efforts, and a detailed improvement plan in FY 2019. The Commission is currently "considering the development of reporting requirements related to flats operational cost and service issues" in Docket No. RM2018-1. FY 2018 ACD, Chapter 5 at 170-173.

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<sup>39</sup> See *id.*, tab "Q5b," December 28, 2017 Public File, tab "Q3e."

<sup>40</sup> See Docket No. ACR2017, Responses to CHIR No. 11, question 6.

<sup>41</sup> See December 29, 2017 Public File, tab "Q6a," December 28, 2017 Public File, tab "Q3f."

<sup>42</sup> See December 29, 2017 Public File, tab "Q6b."

**Marketing Mail Service Performance:**

- *The Commission finds that the Postal Service has met its service performance targets for USPS Marketing Mail Letters, USPS Marketing Mail Carrier Route, USPS Marketing Mail Parcels, and USPS Marketing Mail High Density and Saturation Letters. The Commission expects that service performance results for these products will continue to meet or exceed the FY 2018 on-time performance target. If the service performance results for these products do not continue to meet or exceed the target in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how service performance will be improved.*

*The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for the USPS Marketing Mail products that failed to meet the applicable annual service performance targets.*

*The Commission expects improvement in service performance results for USPS Marketing Mail Every Door Direct Mail—Retail and USPS Marketing Mail High Density and Saturation Flats/Parcels. If the Postal Service does not maintain or improve its service performance results for these products in FY 2018, the Postal Service shall include a detailed and product-specific plan in its FY 2018 ACR for how service performance will be improved.*

*FY 2017 USPS Marketing Mail Flats service performance results declined from the level reported in FY 2016. Moreover, USPS Marketing Mail Flats service performance results continued to fall substantially short of intended annual performance targets. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. FY 2017 ACD, Chapter 5 at 151.*

- The Postal Service provided a plan for service improvement as directed by the Commission.<sup>43</sup>
- In FY 2017, the Commission directed the Postal Service to apply its data leveraging techniques to improve USPS Marketing Mail service performance. The Postal Service indicated that it applied these techniques in FY 2018. *Id.*
- The Postal Service failed to improve service performance results for USPS Marketing Mail. The Commission expects that the service performance results for the USPS Marketing Mail products (High Density and Saturation Flats/Parcels, Letters, Carrier Route, Flats, and Every Door Direct Mail—

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<sup>43</sup> Library Reference USPS–FY18–29, December 28, 2018, file “FY18-29 Service Performance Report.pdf,” at 13-14 (FY 2018 Service Performance Report).



Retail) that did not achieve their FY 2018 service performance targets will improve in FY 2019. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for these products. FY 2018 ACD, Chapter 5 at 179. The Commission is currently “considering the development of reporting requirements related to flats operational cost and service issues” in Docket No. RM2018-1. FY ACD 2018, Chapter 5 at 180.

#### Periodicals Service Performance:

- *This was the fifth consecutive year that Periodicals did not meet its service performance targets. In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets. The Commission directs the Postal Service to apply its data leveraging techniques to improve Periodicals service performance. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. FY 2017 ACD, Chapter 5 at 153.*
  - In FY 2017, the Commission directed the Postal Service to apply its data leveraging techniques to improve Periodicals service performance. The Postal Service indicated that it applied these techniques in FY 2018. FY 2018 Service Performance Report at 16.
  - “In-County and Outside County Periodicals service performance results continued to fall substantially short of performance targets in FY 2018. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for Periodicals.” FY 2018 ACD, Chapter 5 at 182. The Commission is currently “considering the development of reporting requirements related to flats operational cost and service issues” in Docket No. RM2018-1. *Id.*

#### Package Services Service Performance:

- *Media Mail/Library Mail and BPM Parcels service performance results continue to exceed the Postal Service’s annual service performance targets. BPM Flats service performance results were substantially below other Package Services products and the applicable percentage on-time service performance target for the sixth consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve BPM Flats service performance. Pending Docket No. RM2018-1 is considering the development of reporting requirements related to flats operational cost and service issues. FY 2017 ACD, Chapter 5 at 156.*
  - In FY 2017, the Commission directed the Postal Service to apply its data leveraging techniques to improve BPM Flats service performance. The Postal

Service indicated that it applied these techniques in FY 2018. FY 2018 Service Performance Report at 20-21.

- BPM Flats service performance results in FY 2018 “were substantially below other Package Services products and the applicable percentage on-time service performance target for the seventh consecutive year. The Commission directs the Postal Service to apply its data leveraging techniques to improve service performance for BPM Flats.” FY 2018 ACD, Chapter 5 at 185. The Commission is currently “considering the development of reporting requirements related to flats operational cost and service issues” in Docket No. RM2018-1. *Id.*

#### Special Services Service Performance:

- *The Postal Service exceeded service performance targets for all reported Special Services products, except for Post Office Box Service, which was near its service performance target. The Commission expects the service performance results for Post Office Box Service to improve in FY 2018. If Post Office Box Service does not achieve its service performance target in FY 2018, the Postal Service shall include in its FY 2018 ACR an evaluation of the efficacy of the six planned actions identified in its FY 2017 ACR and a detailed plan for how this product's results will be improved. FY 2017 ACD, Chapter 5 at 158.*
- “The Postal Service exceeded service performance targets for all reported Special Services products [in FY 2018], except for Post Office Box Service, which was near its service performance target.” FY 2018 ACD, Chapter 5 at 189. The Postal Service included in its FY 2018 ACR a summary of its progress on the six planned actions, but the failure to complete all six planned actions affected its ability to meet the product's service performance target. FY 2018 Service Performance Report at 25-26; January 11 Responses to CHIR No. 1, question 46. “The Commission expects the service performance results for Post Office Box Service will improve in FY 2019. If the results for Post Office Box Service do not achieve the service performance target in FY 2019, then the FY 2019 ACR shall include: (1) an evaluation of the efficacy of the Postal Service's FY 2019 efforts (including the six planned actions described in the FY 2018 ACR) to improve on-time service performance for this product and (2) a detailed plan explaining how this product's results will be improved.” FY 2018 ACD, Chapter 5 at 190.

#### Post Office Suspensions:

- *For these reasons, the Commission finds that the Postal Service made significant progress in reducing the number of suspended post offices during FY 2017. The Commission also finds that the Postal Service complied with the Commission's directives in the FY 2016 ACD to significantly reduce the number of suspended post*

*offices, file quarterly updates on suspended post offices, and explain why the Postal Service was unable to meet the FY 2017 timeline for resolving suspended post offices. See FY 2017 ACD at 166. The Commission appreciates that the Postal Service filed quarterly suspension updates on time and also proposed a timeline for resolving the remaining suspended post offices in FY 2018 and FY 2019. FY 2017 ACD, Chapter 5 at 164.*

- *“The Postal Service fell short of its goal of resolving 169 suspended post offices in FY 2018. Nonetheless, the Postal Service made significant progress in reducing the backlog of post offices suspended at the end of FY 2016.” FY 2018 ACD, Chapter 5 at 197. The Postal Service complied with the Commission’s directive in the FY 2017 ACD to submit quarterly reports updating the Commission on the status of suspended post offices. Additionally, in the FY 2018 ACR, the Postal Service explained why it was unable to meet the timeline provided in the FY 2017 ACR for resolving suspended post offices and provided an updated timetable for resolving the remaining suspended post offices. FY 2018 ACR at 63-65.*

#### Customer Satisfaction:

- *The Commission directs the Postal Service to provide an analysis in the FY 2018 ACR and explain why large business customer satisfaction declined between FY 2015 and FY 2017. The Postal Service must also discuss the reasons for any further declines in customer satisfaction for residential, small/medium business, and large business customers.*

*The Commission finds that the Postal Service should take appropriate steps to improve customer satisfaction with Market Dominant products for all customers as outlined in the FY 2017 ACR. The Commission recommends that the Postal Service monitor the areas identified by the Public Representative to ensure that these concerns are addressed in FY 2018. In the FY 2018 ACR, the Postal Service must describe actions taken to improve customer satisfaction in FY 2018 and explain whether actions were effective. FY 2017 ACD, Chapter 5 at 171.*

- *In the FY 2018 ACR, the Postal Service identified factors influencing overall customer and product satisfaction results for large business customers. The Postal Service explained that it found it difficult to assess what drove customer satisfaction declines between FY 2015 and FY 2017, but for FY 2018, it conducted two assessments to understand the declines in satisfaction. FY 2018 ACR at 58. It identified three drivers that influence large business customer satisfaction; building customer relationships, the ease of contacting a representative, and issue/claim resolution. *Id.* at 58-59.*

- The Postal Service recognizes that it must perform further research to understand how large business customers' experience with each product type is driving overall satisfaction, but it provides a preliminary breakdown of what it sees as the major drivers. *Id.* at 59.

# Appendix B: Commenters

## 2018 *Annual Compliance Determination*

| Commenter   | Comment Citation   | Citation Short Form       |
|---|--|---------------------------|
| Amazon.com Services, Inc. (Amazon)  | Reply Comments of Amazon.com Services, Inc., March 1, 2019   | Amazon Reply Comments     |
| American Catalog Mailers Association (ACMA)                                       | Initial Comments of the American Catalog Mailers Association (ACMA), February 14, 2019   | ACMA Comments             |
| American Consumer Institute Center for Citizen Research (ACI)                     | Comments of American Consumer Institute Center for Citizen Research Regarding Docket No. ACR2018 Submitted to the Postal Regulatory Commission, January 31, 2019 | ACI Comments              |
| The Association of Magazine Media and the Alliance of Nonprofit Mailers (MPA/ANM) | Comments of MPA - The Association of Magazine Media and the Alliance of Nonprofit Mailers, February 14, 2019   | MPA/ANM Comments          |
| Association for Postal Commerce (PostCom)   | Comments of the Association for Postal Commerce, February 19, 2019   | PostCom Comments          |
| Greeting Card Association (GCA)   | Comments of the Greeting Card Association, February 14, 2019   | GCA Comments              |
| National Association of Presort Mailers and Idealliance (NAPM/Idealliance)        | Comments of the National Association of Presort Mailers and Idealliance, February 14, 2019   | NAPM/Idealliance Comments |
| National Postal Policy Council (NPPC)   | Comments of the National Postal Policy Council, February 14, 2019  | NPPC Comments             |
| National Taxpayers Union (NTU)  | Comments of: Pete Sepp, President, National Taxpayers Union, February 25, 2019   | NTU Comments              |
| Parcel Shippers Association (PSA)   | Reply Comments of the Parcel Shippers Association, March 4, 2019   | PSA Reply Comments        |

| Commenter   | Comment Citation   | Citation Short Form  |
|---|--|--|
| Pitney Bowes Inc. (Pitney Bowes)                        | Comments of Pitney Bowes Inc., February 14, 2019   | Pitney Bowes Comments  |
| Public Representative (PR)                              | Public Representative Comments, February 14, 2019  | PR Comments  |
| Quad Graphics (Quad)                                    | Comments of Quad Graphics, February 14, 2019   | Quad Comments  |
| Small Business & Entrepreneurship Council (SBE Council) | Comments of Small Business & Entrepreneurship Council on Docket No. ACR2018, January 31, 2019  | SBE Council Comments   |
| Taxpayers Protection Alliance (TPA)                     | Comments of Taxpayers Protective Alliance on the 2018 Annual Compliance Report Docket No. ACR2018, January 31, 2019                                | TPA Comments   |
| United Parcel Service, Inc. (UPS)                       | Initial Comments of United Parcel Service, Inc. on United States Postal Service's Annual Compliance Report for Fiscal Year 2018, February 19, 2019 | UPS Comments   |
| United States Postal Service (Postal Service)           | Reply Comments of the United States Postal Service, February 25, 2019  | Postal Service Reply Comments  |
| United States Postal Service (Postal Service)           | United States Postal Service Reply Comments Regarding FY 2018 Performance Report and FY 2019 Performance Plan, February 22, 2019                   | Postal Service Reply Comments on FY 2018 Performance Report and FY 2019 Performance Plan |
| United States Postal Service (Postal Service)           | Postal Service Reply to UPS and PostCom Comments, March 1, 2019  | Postal Service Reply Comments to UPS and PostCom   |

# Appendix C: Acronyms and Abbreviations

| Acronym/Abbreviation | Meaning  |
|----------------------|--|
| AADC                 | Automated area distribution center                         |
| ACD                  | <i>Annual Compliance Determination</i>                     |
| ACMA                 | American Catalog Mailer Association                        |
| ACR                  | <i>Annual Compliance Report</i>                            |
| ADC                  | Area distribution center                                   |
| AFSM                 | Automated Flats Sorting Machine                            |
| APWU                 | American Postal Workers Union                              |
| BPM                  | Bound Printed Matter                                       |
| BSN                  | Business Service Network                                   |
| CAGU                 | Citizens Against Government Waste                          |
| Carlson              | Douglas F. Carlson   |
| CEM                  | Customer Experience Measurement                            |
| C.F.R.               | Code of Federal Regulations                                |
| CHIR                 | Chairman's Information Request                             |
| CI                   | Customer Insights  |
| CPI                  | Consumer price index                                       |
| CPI-U                | Consumer price index for all urban consumers               |
| CPO                  | Community Post Office                                      |
| CPU                  | Contract postal unit                                       |
| CRA                  | Cost and Revenue Analysis                                  |
| DDU                  | Destination delivery unit                                  |
| DFSS                 | Destination Flats Sequencing System                        |
| Discover             | Discover Financial Services                                |
| DNDC                 | Destination network distribution center                    |
| DSCF                 | Destination sectional center facility                      |
| ECSI                 | Educational, cultural, scientific or informational (value) |
| EMS                  | Express Mail Service                                       |
| EPG                  | E-Parcel Group   |
| EXFC                 | External First-Class Measurement                           |
| FedEx                | Federal Express Corporation                                |
| FSS                  | Flats Sequencing System                                    |
| FY                   | Fiscal Year  |
| GCA                  | Greeting Card Association                                  |
| GEPS                 | Global Expedited Package Service                           |
| GREPS                | Global Reseller Expedited Package Service                  |

| Acronym/Abbreviation | Meaning   |
|----------------------|---|
| ICRA                 | International Cost and Revenue Analysis                                     |
| iMAPS                | Intelligent Mail Accuracy and Performance System                            |
| IMb                  | Intelligent Mail barcode  |
| IMMS                 | International Mail Measurement System                                       |
| IMTS-Inbound         | International Money Transfer Service-Inbound                                |
| IMTS-Outbound        | International Money Transfer Service-Outbound                               |
| Mixed ADC            | Mixed area distribution center  |
| MPA & ANM            | Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers     |
| IOCS                 | In-Office Cost System   |
| NAPM                 | National Association of Presort Mailers                                     |
| NDC                  | Network distribution center   |
| NPPC                 | National Postal Policy Council  |
| NSA                  | Negotiated service agreement  |
| NTU                  | National Taxpayers Union  |
| PAEA                 | Postal Accountability and Enhancement Act                                   |
| PHI                  | PHI Acquisitions, Inc.  |
| Pitney Bowes         | Pitney Bowes Inc.   |
| POS                  | Point of Sale   |
| PostCom              | Association for Postal Commerce   |
| PTS                  | Product Tracking System   |
| PR                   | Public Representative   |
| Progressive          | Progressive Direct Mail Advertising   |
| QBRM                 | Qualified Business Reply Mail   |
| SASP                 | Seamless Acceptance and Service Performance                                 |
| SFS                  | Stamp Fulfillment Services  |
| TPA                  | Taxpayers Protection Alliance   |
| UFSM                 | Upgraded Flats Sorting Machine  |
| UHCC                 | Utah Hispanic Chamber of Commerce   |
| U.S.C.               | United States Code  |
| UPS                  | United States Parcel Service  |
| UPU                  | Universal Postal Union  |
| Valassis             | Valassis Direct Mail, Inc.  |
| Valpak               | Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. |
| VPO                  | Village Post Office   |



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